

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE COMMISSARY SURCHARGE COLLECTIONS
FUND FINANCIAL STATEMENTS FOR FY 1992**

Report No. 93-145

June 30, 1993

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Department of Defense

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Acronyms

DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DBMS	Defense Business Management System
DITSO	Defense Information Technology Service Organization
OMB	Office of Management and Budget
FMFIA	Federal Managers' Financial Integrity Act
U.S.C.	United States Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 30, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on the Defense Commissary Surcharge Collections Fund Financial Statements for FY 1992 (Report No. 93-145)

We are providing this final report for your information and use, and for use by Congress. Financial Statement audits are required by the Chief Financial Officers Act of 1990. The Act requires the Inspector General to render an opinion on the fairness of the financial statements of revolving funds such as the Defense Commissary Agency's (DeCA) Surcharge Collections fund. The statements were to be prepared by DeCA in accordance with DoD accounting policies and procedures and generally accepted accounting principles. Additionally, we are reporting on the adequacy of DeCA's and the Defense Finance and Accounting Service's (DFAS) internal controls and DeCA's compliance with laws and regulations. Our audit reviews and testing were made of the FY 1992 financial accounts and statements for the Commissary Surcharge Collections fund.

We were unable to determine whether the financial statement accounts presented fairly the financial position of the Commissary Surcharge Collections fund for FY 1992. An adequate internal control structure and system of financial accounts was not established to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. Significant financial account balances were developed off line. DeCA used manually gathered and incomplete data to control and report financial transactions. A normal financial system of source documents, journals, and ledgers did not flow into the financial statements.

We believe DeCA understands the need for and is working aggressively to improve its financial management system and practices. However, DeCA will not be able to prepare accurate financial reports in the near future unless effective action is taken to design and implement a financial reporting system. Such a system must include adequate internal controls, compatible computer systems, documented accounting policies and procedures, and the segregation of duties between accounting and operational organizations. We will be unable to provide audit assurance as required by the Chief Financial Officers Act and in compliance with financial auditing standards, until DeCA has designed and implemented a comprehensive financial system. This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3, and accordingly, comments are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan at (703) 693-3457 (DSN 222-3457) or Mr. Thomas D. Kelly at (215) 737-3886 (DSN 444-3886). The distribution of the report is listed in Part IV, Appendix C.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-145
(Project No. 2LA-2001)

June 30, 1993

**THE DEFENSE COMMISSARY SURCHARGE COLLECTIONS
FUND FINANCIAL STATEMENTS FOR FY 1992**

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of the financial statements of the Defense Commissary Surcharge Collections fund. The Surcharge Collections fund is a single financial account authorized by Congress to be created by DoD with fund receipts from the collection of a surcharge from commissary patrons and from other revenue sources. The surcharge funds are used to pay for operating and constructing commissary stores. The Defense Commissary Agency (DeCA) manages the Surcharge Collections fund while most accounting services are provided by the Defense Finance and Accounting Service (DFAS) - Columbus Center. FY 1992 was the first year that DeCA managed the Surcharge Collections fund. Before FY 1992, each Military Department operated and managed its own commissary system and fund. For FY 1992, DeCA reported that the Surcharge Collections fund earned revenues of \$307 million and incurred store operating expenses of \$270 million. As of September 30, 1992, DeCA reported that the Surcharge Collections fund had \$574 million in assets and \$85 million in liabilities.

Objectives. Our primary objective was to determine whether the financial statement accounts present fairly the financial position of the Surcharge Collections fund. We also evaluated DeCA's and DFAS - Columbus Center's internal control structure for controlling and reporting financial information as well as DeCA's compliance with applicable laws and regulations that have a direct and material effect on the financial statements.

Audit Results. We were unable to determine whether the financial statement accounts presented fairly the financial position of the Surcharge Collections fund for FY 1992. An internal control structure was not established to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. Financial accounts were not developed and maintained in accordance with existing Federal laws and regulations governing trust fund financial accounting. Significant financial accounts were developed off line. DeCA used manually gathered and incomplete data to control and report financial transactions. The normal financial system of source documents, journals and ledgers did not flow into the financial statements.

Independent Auditor's Opinion. Inadequate accounting records rendered the scope of our audit insufficient to enable us to express, therefore, we do not express, an opinion on these financial statements. Part I contains our disclaimer of opinion.

Internal Controls. We noted that an effective internal control structure was not established to provide reasonable assurance that material misstatements in the financial records and statements would be prevented or detected in a timely manner. The financial accounting system in place was not fully conducive to revolving fund accounting. Necessary general ledger and subsidiary accounts were not established for

the Surcharge Collections fund, and accrual accounting procedures were not used to account for and control fund revenues and expenses. As a result, DeCA did not generate the significant FY 1992 account balances from an existing system of internal controls and a systematic financial data collection system, but rather generated the reported account balances off line. Part II contains our report on internal controls.

Compliance with Laws and Regulations. The requirements of the Federal Managers' Financial Integrity Act of 1982 were not effectively implemented in FY 1992. Further, DeCA did not comply fully with the provisions of the DoD Accounting Manual and the requirements of United States Code, title 31, "Executive Agency Accounting Systems," regarding the financial controls to be exercised over cash balances and the use of accrual accounting procedures. Part III contains our report on compliance with laws and regulations.

Benefits of the Audit. The audit strengthened the fund's internal control structure for controlling and recording financial information and should improve the DeCA's compliance with laws and regulations that have a material effect on the financial statements. Specifically, our audit should enable DeCA to:

- identify and record valid transactions,
- describe transactions on a timely basis,
- measure the value of transactions properly,
- record transactions in the proper period,
- present and disclose the results of transactions,

The audit should also have had a positive impact on the Surcharge Collections fund's revenues and cash flow and, in turn, enhance DeCA's ability to budget and implement its construction and equipment programs.

Recommendations. No recommendations were made to revise the financial statements because we were unable to express an opinion on them. However, during our review we issued six management memorandums to DeCA with suggested actions to strengthen its internal control structure and to comply with laws and regulations that have a material impact on financial statements (Appendix A).

Management Comments. DeCA management generally agreed with our suggestions and indicated that corrective action had or would be taken. The material weaknesses we identified during the audit and management's actions taken or planned are summarized in Part IV, Appendix A.

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This report was prepared by the Logistics Support Directorate, Office of the Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate at (703) 614-6303 (DSN 224-6303).

**Part I - Independent Auditor's Opinion
on the Financial Statements**

Independent Auditor's Opinion on the Financial Statements

Introduction

The Chief Financial Officers Act of 1990 requires that we express an opinion on DoD financial statements. The financial statements of the Commissary Surcharge fund are the responsibility of the Defense Commissary Agency (DeCA) and were prepared by DeCA based on financial information provided by the Defense Finance and Accounting Service (DFAS) - Columbus Center, Columbus, Ohio, and the 9th Finance Group, Europe. Our responsibility is to render an opinion on the fairness of the financial statements.

Scope

We attempted to audit the Principal Financial Statement of the Commissary Surcharge fund for the year ended September 30, 1992. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the footnotes, the overview, and supplemental information.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements, including the Notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall statement presentation. We developed a client profile and a general risk assessment of the Surcharge Collections fund. We also visited stores and other activities to document the transaction flow to major account balances prescribed for the Surcharge Collections fund. We believe our review, although not in the depth required of an audit, provides reasonable basis for our opinion.

FY 1992 was the first year of operation for DeCA. DeCA opened 419 commissary stores on October 1, 1991, under a new centralized management concept. For FY 1992, an effective internal control structure was not established to provide reasonable assurance that material misstatements in the financial accounts and statements would be prevented or detected in a timely manner. The Military Departments, from whom management responsibility was transferred, did not provide DeCA with verifiable asset and liability ending balances for such major accounts as Capital Equipment and Construction-in-Progress. The DFAS - Columbus Center, from whom most finance and accounting services were obtained, did not employ an automated financial system capable of processing all revolving fund transactions. General ledger and subsidiary accounts were not established for the major asset accounts of Capital Equipment and Construction-in-Progress, and accrual procedures were not established for recording and controlling revenues as they were earned and operating expenses as they were incurred. Further, the financial policies and procedures in place during FY 1992 were often temporary and did not encompass the gamut of revolving fund accounting processes and transactions.

Independent Auditor's Opinion on the Financial Statements

To comply with the financial statement reporting requirements, DeCA developed the reported balances in the financial statements off line. The normal financial system of source documents, journals and ledgers did not flow into the financial statements. We determined that it was not practical for us to perform, nor did we perform, substantive testing of the reported off-line balances.

Auditing Standards

We conducted our review in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-06. The summary of significant policies included in the Notes to the Consolidating Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Commissary Surcharge Collections fund's significant assets, liabilities, net position, results of operations, and cash flows.

Disclaimer of Opinion

Because we were unable to determine the proper value of the reported balances shown for Capital Equipment and Construction-in-Progress and for revenues realized and operating expenses incurred, the scope of our work was not sufficient to enable us to express, therefore, we do not express, an opinion on those financial statements.

Independent Auditor's Opinion on the Financial Statements

Additional Information

Until DeCA puts in place an automated accounting system capable of processing all Surcharge Collections fund transactions, with documentation flows established from initial paperwork to the financial accounts, we will be unable to perform sufficient substantive testing to opine on the financial statements. DeCA plans to implement system improvements throughout FY 1993 and FY 1994 so that by the beginning of FY 1995, balance sheet accounts may be system-generated and suitable for computing and measuring financial operations for an operating year.

Part II - Internal Controls

Introduction

We evaluated the internal control structure of the Commissary Surcharge Collections fund for the year ended September 30, 1992. The Defense Commissary Agency (DeCA) has financial management responsibility for the fund while the Defense Finance and Accounting Service (DFAS) - Columbus Center provides accounting services for most of the fund's receipts and disbursements.

Although we disclaimed an opinion on whether the FY 1992 financial statements were presented fairly, we performed sufficient work to evaluate the internal control structure established for controlling and recording the fund's financial information for FY 1992. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the obligations and costs incurred are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to an agency's operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over assets.

Objectives and Scope

Our audit objective was to evaluate the fund's internal control structure to assess the level of control risk and determine which auditing procedures should be used. Control risk is the risk of material misstatement not being prevented or detected by the internal control structure. Our evaluation included obtaining an understanding of the significant internal control structure policies and procedures.

Because the fund's internal control structure was in a state of transition during FY 1992, we did not assess the level of control risk relevant to all significant accounting cycles, classes of transactions, or account balances. We did not perform any substantive testing of the Commissary Surcharge Collections fund account balances. Instead, we addressed the overall objective by assessing, through research and analysis, whether significant general ledger accounts, prescribed for revolving fund financial accounting, were developed and maintained in accordance with existing Federal laws and regulations. Our review was made during the period November 1991 to April 1993.

Except as otherwise noted, we conducted our review in accordance with generally accepted auditing standards issued by the American Institute of Certified Public Accountants, Government Auditing Standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and the Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." In performing our review, we visited the DFAS - Columbus Center, DeCA

headquarters, and its two service centers, and using a judgement sample of the 419 stores in operation on October 1, 1991, we also visited three of DeCA's seven regions and 13 stores (see Appendix B of Part IV). At the stores, we analyzed available records as a means of documenting the transaction flow to major account balances prescribed for the Surcharge Collections fund.

For the purpose of this report, we classified the significant internal control structure policies and procedures, as they relate to the Surcharge Collections fund, in the following categories.

- o General ledger: policies and procedures associated with recording and reconciling general ledger account balances with subsidiary ledgers and supporting records.

- o Transaction processing: processing and flow of financial data into the financial accounts.

- o Financial reporting: policies and procedures associated with preparing financial statements.

Prior Audit Coverage

There have been no prior audits of the DeCA Surcharge Collections fund. DeCA and the fund were established on October 1, 1991.

Results of Review

An effective internal control structure was not established to provide reasonable assurance that material misstatements in the financial records and statements would be prevented or detected in a timely manner. FY 1992 was the first year of operation for DeCA and the financial accounting system maintained by DFAS - Columbus Center was not fully conducive to revolving fund accounting. Additionally, general ledger and subsidiary accounts were not established in the accounting system to record the major asset balances of equipment and construction-in-progress, nor were accrual procedures established for recording and controlling revenues as they were realized and expenses as they were incurred. Virtually all significant internal control structure policies and procedures were being developed or changed during FY 1992. Accordingly, DeCA did not generate the significant account balances shown in the FY 1992 financial statements from an existing system of internal controls and a systematic financial data collection system. Rather, it generated the reported account balances off-line. We found weaknesses in virtually every aspect of the fund's internal control structure over general ledger reconciliations, transaction reporting, and financial reporting.

Internal Controls

During the year, we noted conditions involving the fund's internal control structure and its operations that we consider to be reportable under auditing standards established by the Comptroller General and OMB Bulletin 93-06. The reportable conditions involve material weaknesses in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to ensure that obligations are recorded and costs are incurred in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to the fund's operations are properly recorded and accounted for. The conditions we identified and addressed to DeCA are synopsized below.

Recording Cash Receipts. Cash receipts were not recorded and reconciled promptly. Delays in recording and performing required reconciliations within the DFAS - Columbus Center and with the U.S. Treasury resulted in the commissary's surcharge collection cash balances being understated by at least \$46 million at March 31, 1992. Headquarters, DeCA needed to exercise greater oversight of the cash receipts process to minimize errors and to ensure that the required reconciliations were completed promptly.

Recording Construction-in-Progress. Construction-in-progress was not accounted for as an asset. Over \$100 million of prior year disbursements made by the Military Services for active construction contracts were not recorded and capitalized. Further, based on a DeCA-performed cash flow analysis, an estimated \$19.7 million of current year disbursements for construction were accounted for as expenses, instead of as construction-in-progress. DeCA had not developed procedures for identifying, processing, and recording all transactions affecting construction-in-progress for current and prior year active construction contracts.

Capitalization of Equipment. Commissary equipment costing over \$15,000 apiece, either transferred from the Military Departments or newly acquired, was not capitalized (recorded in the financial accounting system as an asset). Equipment meeting capitalization criteria was not classified as an asset, but was recorded as an expense in the financial records. Our limited review of the Military Departments' FY 1991 financial statements and property accountability records maintained at commissary stores showed that there was operating equipment on hand at the stores that should have been capitalized. For instance, the Air Force reported a year-end balance of equipment valued at approximately \$160 million in its FY 1991 financial statements. DeCA had not developed procedures for identifying, processing, and recording equipment received from the Military Departments as capitalized assets. DeCA had not made provisions to stratify property accountability records in line with prescribed DoD capitalization and OMB classification criteria.

Commissary Losses. Normal resales operating losses were not accounted for as a means of seeking reimbursement from the Surcharge Collections fund. Major losses, such as from fire, were not properly funded when charged to the Surcharge Collections fund in FY 1992. DeCA needed to develop procedures for properly identifying, controlling, and recording losses.

Miscellaneous Revenues. Miscellaneous revenues were not recorded either when earned or at all. Based on a DeCA prepared analysis, an estimated \$1 million per month of discounts taken on vendor invoices for resale stock was recorded in the month after they were earned. Revenues from the sale of cardboard and excess equipment to private contractors were also significantly less than anticipated. DeCA had not established adequate financial and program control over miscellaneous revenues.

Recording Operating Expenses. Operating expenses were not fully recorded on an accrual basis. Operating expenses were understated on accounting records by millions of dollars for much of FY 1992 because they were accounted for only after being paid and not when incurred. DeCA needed to ensure that the regions and stores quickly processed receipt information as a means of recording operating expenses when incurred.

We believe that the conditions we identified are material weaknesses as defined in DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Implementation of the actions discussed in Part IV, Appendix A of this report will correct the identified conditions. DeCA generally agreed with our suggested actions; and most of DeCA's corrective actions will be fully implemented during FY 1993. A full description of the conditions, along with management comments, are presented in Part IV, Appendix A. We did not verify any adjustments DeCA made to the financial statements; and we did not conclude as to whether any additional adjustments are required. Our evaluation of the internal control structure would not necessarily disclose all material weaknesses in the internal control structure.

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Part III - Compliance with Laws and Regulations

Introduction

We evaluated DeCA's compliance with Federal laws and regulations as they apply to the Commissary Surcharge Collections fund. Although we disclaimed an opinion on whether the FY 1992 financial statements of the fund were presented fairly, we performed sufficient work to reach conclusions on compliance with applicable laws and regulations. DeCA has financial management responsibility for the fund while the Defense Finance and Accounting Service (DFAS) - Columbus Center provides accounting services for most of the fund's receipts and disbursements. DeCA and DFAS - Columbus Center management are responsible for complying with regulations designated by the OMB and DoD.

Objectives and Scope

Our objective was to evaluate DeCA's compliance with certain provisions of applicable laws and regulations that have a direct and material effect on the financial statements of the fund. The applicable laws and regulations used as a basis for our review were:

- o Chief Financial Officers Act of 1990,
- o Federal Managers' Financial Integrity Act (FMFIA) of 1982,
- o OMB Bulletin 93-02, "Form and Content of Agency Financial Statements,"
- o DoD Manual 7220.9-M, "DoD Accounting Manual," and
- o DoD Regulation 1330.17-R, "Armed Services Commissary Regulations."

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in Federal statutes or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements.

Except as otherwise noted, we made our review in accordance with generally accepted auditing standards issued by the American Institute of Certified Public Accountants, Government Auditing Standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements.

Prior Audit Coverage

There have been no prior audits of the DeCA Surcharge Collections fund. DeCA and the fund were established on October 1, 1991.

Results of Review

The results of our review of compliance disclosed the following instances of noncompliance that materially affected the reliability of the fund's financial statements.

Financial Administration. The FMFIA of 1982 was not fully complied with as it relates to financial administration. DeCA did not establish an adequate financial internal control structure as required by the FMFIA. The automated business system, as well as many of the financial policies and procedures in place, were only temporary and did not ensure accurate financial accounting and reporting. DeCA recognized this material weakness in its annual statement on internal controls. DeCA attributed its noncompliance with the Act to the establishment of a new organization with a worldwide mission. It has documented corrective actions for FY 1993.

Statement Presentation. OMB Bulletin 93-02, "Form and Content of Agency Financial Statements," was not fully complied with as it relates to presentation. Regarding form and content of presentation, the principal statements contained balances that were inconsistent with general ledger balances and prescribed crosswalk aggregates (statement accounts' summary totals). Additionally, the Overview did not address important aspects of the Surcharge Collections fund's financial operations. The financial statements and the Notes to the Financial Statements should have included, for example, an explanation for the unrestricted cash balance of \$31,505,797. An unrestricted cash balance, according to OMB Bulletin 93-02, should represent cash that is outside an agency's treasury balance, such as a petty cash fund. However, all cash transactions for the Surcharge Collections fund are managed through a U.S. Treasury account. Further, the unrestricted cash balance figure was not supported by a general ledger trial balance amount or any crosswalk aggregate. Additionally, the cash balance reported in the financial statements was taken from U.S. Treasury records without formally recognizing that the balance was likely overstated as it partly represented about \$8 million of undistributed disbursements which had not as yet passed through the accounting and reconciliation process. Regarding the overview, only two Surcharge Collections Accounts -- Operating Expenses and Equipment -- were discussed. Other major accounts such as Cash, Construction, Receivables, and Payables, were not mentioned in terms of trends or failures. DeCA management informed us that the issues related to financial statement presentation would be rectified in future financial statements for the fund.

Compliance with Laws and Regulations

Accounting Procedures. DoD Manual 7220.9-M, "DoD Accounting Manual," was not fully complied with regarding the establishment of financial control over cash balances, the development of general ledger accounts for construction-in-progress and capital equipment on hand, and the establishment of accrual accounting for revenues earned and expenses incurred. Concerning construction-in-progress for instance, the Air Force reported \$226 million of commissary construction-in-progress at year end on its FY 1991 financial statements. However, as of May 31, 1992, DeCA and the DFAS - Columbus Center had not developed a plan to classify the Military Departments' disbursements as construction-in-progress.

Commissary Losses. DoD Regulation 1330.17-R, "Armed Services Commissary Regulations," was not fully complied with as it related to having the Surcharge Collections fund pay for normal operating losses and for major losses.

DeCA generally agreed with all our suggested actions. DeCA will implement most corrective actions during FY 1993.

Except as described above, the results of our tests of compliance indicate that DeCA complied, in all material respects, with the provisions of the Federal laws and regulations tested. With respect to provisions not tested, nothing came to our attention that caused us to believe that DeCA had not complied, in all material respects, with the provisions.

Part IV - Additional Information

Appendix A. Management Memorandums

The following are summaries of management memorandums issued or briefed to DeCA during our audit of the FY 1992 financial statements of the Commissary Surcharge Collections fund. The memorandums were intended to assist in preparing the FY 1992 financial statements and the notes to the financial statements. The summaries contain the condition, background, details of review, specific suggested actions and management comments.

Recording Cash Receipts

Condition. The Surcharge Collections fund's results of operations and financial position for FY 1992 could be substantially misrepresented because cash receipts were not being fully recorded promptly. Not fully recording cash receipts on a prompt basis is inconsistent with Federal regulations and represents a material weakness in the internal control structure for controlling and recording financial information.

Background. Commissary stores deposit cash collections -- represented by currency, checks, and food stamps -- at designated depositories, usually commercial banks. The designated depositories forward the deposit tickets Standard Form (SF) 215 to the U.S. Treasury; and the commissary stores send copies to the responsible disbursing station, in this case the disbursing station that handles the Resale Stock Fund at the DFAS - Columbus Center. Along with copies of the deposit tickets, the commissary stores send to the disbursing station Reports of Deposit (DD Form 707), which break out the deposits by appropriation and account. Prompt and accurate recording of cash receipts is the most important of asset transactions. The DoD Accounting Manual provides standards and related management requirements necessary to establish financial control over cash balances. The key requirement prescribed for controlling cash receipts is performing accountability reconciliations.

Details of Review. As of March 31, 1992, DFAS - Columbus Center had recorded about \$74 million of Surcharge Collections fund cash receipts although an estimated \$120 million should have been recorded based on reported commissary sales of about \$2.4 billion. At the point of sale, a 5-percent surcharge is collected. Many of the recorded cash receipts were at risk of being negated for lack of support. An understated and not fully supported cash balance resulted from delays in completing and resolving two separate accountability reconciliations.

One of the reconciliations, that affected the amount of receipts recorded, involved verifying cash receipts within the DFAS - Columbus Center. Procedurally, Surcharge Collections fund receipts shown on Reports of Deposit are initially recorded in a Commissary Resale Stock fund general ledger account. Weekly, the Resale Stock fund disbursing station is supposed to reconcile the Surcharge Collections fund summary balance shown in the general

Appendix A. Management Memorandums

ledger account with the Reports of Deposit -- then formally transfer the reconciled amount to another disbursing station at the DFAS - Columbus Center responsible for the Surcharge Collections fund. However, the amount of Surcharge Collections fund receipts, not reconciled and transferred, increased each month since the beginning of FY 1992. As of March 31, 1992, it had reached about \$46 million.

The other reconciliation, that affected the reliability of the receipts recorded, involved verifying cash deposits with the U.S. Treasury. Each month, disbursing stations are to prepare and send Statements of Accountability (SF 1219) to the U.S. Treasury. The statements contain details on deposits including the document number, disbursing station symbol number, cash amount, and date of deposit. The U.S. Treasury reconciles this detailed information with its records based on deposit tickets. Differences are identified and provided to disbursing stations in unmatched transaction listings. If the differences are not corrected within 6 months, the U.S. Treasury will record the differences in a budget clearing account. In which case, the deposits in question would not be available for use and could actually be lost to the appropriation if the unmatched transactions are not resolved within a reasonable period. The amount of unmatched Resale Stock fund deposits, and in turn, unmatched Surcharge Collections Fund deposits, increased each month since the beginning of FY 1992. At the time of our review, about 23,000 unmatched transactions had an absolute value of \$300 million. Based on the authorized surcharge rate of 5 percent, about \$15 million of the recorded and unrecorded Surcharge Collections fund cash balance (\$120 million) were not available for use and could be lost to the appropriation.

The sheer volume of transactions was a major cause of delays in completing and resolving accountability reconciliations. As a new organization, the Resale Stock fund disbursing section at DFAS - Columbus Center was not equipped to handle the transaction work load presented by a consolidated commissary system. It is likely that the reconciliation process was conceived without considering that one disbursing station would process so many commercial cash deposits. Through March 31, 1992, the Resale Stock fund disbursing station processed over 138,000 cash deposits made by some 300 stores -- creating, by far, the largest reconciliation work load of any disbursing station in the Government. To illustrate, as of March 31, 1992, there were about 1,500 commissary deposits that had not been cleared with the U.S. Treasury for at least 6 months; whereas, all Army activities had less than 50 such deposits.

Although performing complete and prompt accountability reconciliations is a finance and accounting service responsibility, there were initiatives that DeCA could have taken to mitigate reconciliation differences and add to the reliability of the reported Surcharge Collections fund cash balance. For instance, most unmatched transactions with the U.S. Treasury occurred because a corresponding entry had not been made in the accounting records at the DFAS - Columbus Center. Either the stores did not submit copies of the deposit tickets, the copies of deposit tickets were lost in transit, or the DFAS - Columbus Center did not process the deposit tickets. DeCA needed to make certain that its stores were promptly submitting deposit tickets. Another significant cause of unmatched transactions with the U.S. Treasury was the number of bad checks

Appendix A. Management Memorandums

that customers wrote at commissary stores. As of March 31, 1992, DFAS - Columbus Center records of unmatched transactions suggested that bad checks accounted for about 8,900 (39 percent) of the unmatched transactions. DeCA needed to explore ways to reduce the number of bad checks written at stores.

Responsible personnel at the DFAS - Columbus Center told us that deposit tickets and records often do not contain sufficient information to quickly resolve unmatched transactions. For instance, specific stores were not identified on deposit tickets, which led to delays in resolving unmatched transactions, particularly where the same depository serviced more than one store. Our stratification of unmatched transactions showed that:

- o 6,334 transactions were under \$100,
- o 3,858 transactions involved five depositories,
- o 24 transactions totaled \$116 million, and
- o 1,750 transactions met the 6-month suspense criteria.

The DFAS - Columbus Center had no written procedures for arranging the unmatched listing by age, dollar value, depository, and so forth. Thus, reconciliations could have centered on unmatched deposits that had the least impact on the Surcharge Collections fund cash balance and financial statements. DeCA needed to provide the DFAS - Columbus Center with more details on deposits and play a role in hastening reconciliations.

Suggested Actions. We suggested that the Director, DeCA:

- o request the DFAS - Columbus Center to provide status reports on accountability reconciliations, and stratifications of unmatched transaction listings. With the information, compile data on unrecorded and unsupported cash receipts in preparation of footnoting the Surcharge Collections fund cash balance reported in FY 1992 financial statements. We also suggested that DeCA use the stratification information to insure that DFAS - Columbus Center resolves unmatched transactions in a timely manner.

- o determine the extent that stores are accepting bad checks and taking too long to process deposit information and whether cost-efficient measures can be introduced to reduce such practices and, in turn, unmatched deposit transactions also.

- o coordinate with the DFAS - Columbus Center to determine what assistance, such as additional information on deposits and a sequence for resolving unmatched deposits, can be provided to hasten accountability reconciliations and promote a more current and accurate Surcharge Collections fund cash balance.

Agency Comments. DeCA generally agreed with our suggestions and stated that:

- o DFAS - Columbus Center will be requested by July 1993 to provide the amount of unmatched collections each month so that DeCA can identify any adverse trends.

- o The delay in collecting bad checks is outside DeCA's control. Returned checks are forwarded by the banks to the DFAS - Columbus Center where they are recorded in the accounting records and sent back to the commissaries for collection. This process ensures adequate internal control over returned checks but it is very time consuming. Once checks are returned to the Commissaries, collection actions are taken expeditiously and the recovered funds are deposited immediately.

- o Procedures were established in September 1991 to require commissaries to indicate their store name, DoD activity address code, and commercial address on the report of deposits (DD Form 707) copy furnished the DFAS - Columbus Center. Commissaries completed deposit tickets (SF 215's) in accordance with U.S. Treasury guidance. The deposit ticket does not provide a field to designate the commissary. DeCA, in coordination with the Comptroller of DoD requested the U.S. Treasury to provide a field in the deposit ticket to code the commissary making the deposit. The U.S. Treasury has refused this request to date.

Recording Construction in Progress

Condition. The Surcharge Collections Fund's results of operations and financial position for FY 1992 could be substantially misrepresented because construction in progress was not recorded as an asset. Not accounting for construction in progress as an asset is inconsistent with Federal regulations and represents a material deficiency in the internal control structure for controlling and recording financial information.

Background. Within DoD, DeCA has centrally managed all commissaries since October 1, 1991. Before this date, each Military Department managed its own commissary system. When the Military Departments transferred their commissaries to DeCA, they also transferred the responsibility to account for ongoing and planned construction in excess of \$100 million. The Military Departments, however, were still to make disbursements for construction that was contracted for prior to FY 1992. Construction includes the cost of building, modifying, or improving commissary facilities.

DeCA budgeted about \$239 million (51 percent) of the available FY 1992 surcharge collection funds for commissary construction. A unique feature of the commissary construction program is that the Surcharge Collections fund pays for construction but completed work is transferred, without reimbursement, and capitalized (recorded as a fixed asset) in the accounting records of the military installation hosting the commissary store.

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The DoD Accounting Manual provides the principles and standards that activities should follow to account for construction-in-progress. Construction-in-progress is an asset of the Surcharge Collections fund that must be recorded and controlled until the asset is transferred to the host installation. A summary account should be established to accumulate all disbursements for projects meeting the prescribed criteria for capitalization; that is, property acquired for \$15,000 or more and estimated to have a useful life of 2 years or more. Because of the dollar significance as well as the fluctuating and temporary nature of the asset, construction in progress disbursements must be controlled by detailed subsidiary accounts which support or provide a basis for:

- o computing the summary account balance,
- o comparing authorized amounts,
- o making progress payments,
- o meeting capitalization criteria,
- o analyzing cash flow requirements, and
- o determining the asset value to be transferred.

Completed construction that is transferred to host installations should be accounted for as reductions in the asset account, Construction-in-Progress, and the equity of the Surcharge Collections fund.

Details. Construction-in-progress disbursements that the Military Departments made were not accounted for properly. By April 30, 1992, the Military Departments had transferred accounting responsibility to the DFAS - Columbus Center for all construction contracts awarded before FY 1992. Essentially what was transferred were the unliquidated balances for some 300 active contracts, totaling about \$129 million. The Military Departments did not provide disbursement details on the contracts, which dated back to FY 1987. For FY 1992, the Military Departments did not classify the disbursements as assets or expenses. The amount that should be classified as construction-in-progress is substantial. For instance, the Air Force reported \$226 million of commissary construction in progress at year end on its FY 1991 financial statements. As of May 31, 1992, DeCA and the DFAS - Columbus Center had not developed a plan to classify the Military Departments' disbursements as construction in progress.

Construction-in-progress disbursements for FY 1992 were not accounted for properly. DeCA awarded construction contracts valued at about \$140.4 million as of September 30, 1992. DeCA prepared a historical profile of construction expenditures which showed that 14 percent of obligations are disbursed and classified in the first year. Based on this DeCA analysis, we estimate that approximately \$19.7 million could have been disbursed and classified as construction-in-progress by September 30, 1992. As an offset, DeCA transferred one completed construction project in May 1992, the \$11 million commissary at Fort Eustis, therefore, at least \$11 million in Surcharge

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Collections fund construction-in-progress should have been reduced by September 30, 1992. However, none of the transactions occurred because DeCA had not developed procedures for processing construction-in-progress transactions and the DFAS - Columbus Center's May 1992 trial balance for the Surcharge Collections Fund did not include general ledger accounts for Construction-in-Progress and Equity Transfers. In effect, all FY 1992 disbursements for construction-in-progress were classified as expenses to the Surcharge Collections fund by default; that is, the proper subsidiary and summary accounts were not established to record them.

Suggested Actions. We suggested that the Director, DeCA:

- o Develop, in coordination with the DFAS - Columbus Center, procedures for identifying, processing, and recording all transactions affecting construction-in-progress for current and prior year active construction contracts.

- o Coordinate with the DFAS - Columbus Center to establish construction-in-progress summary and subsidiary accounts for all active construction contracts meeting the DoD capitalization criteria, and a summary account for recording equity transfers.

- o Monitor the DFAS - Columbus Center's progress in recording the cost of construction-in-progress and, as appropriate, adjust reported expense. If it appears that the cost of the FY 1992 construction-in-progress cannot be fully accounted for, based on the recorded disbursements, develop alternate procedures, such as using previous financial statements and budgetary results, to estimate and report construction-in-progress in the FY 1992 financial statements.

Agency Comments. DeCA agreed with our suggestions and stated the following.

- o A Financial Management Improvement Plan was developed for fixed assets, with active involvement by the DFAS - Columbus Center and the Office of the Comptroller of the Department of Defense. Improvements to the property accountability system, which will expand control and reporting of major and minor repair to commissary stores, will be completed by June 30, 1993.

- o The DFAS - Columbus Center is now accounting for unliquidated obligation balances identified by the Military Departments. The Columbus Center is recording disbursements and adjusting the Defense Business Management System (DBMS) for any construction status change amendments. The Defense Information Technology Services Organization (DITSO) is developing an interim system change to identify inappropriately recorded expenses to the Construction-in-Progress asset account. The DFAS - Columbus Center will create a monthly journal voucher to record assets and reduce operating expenses. Interim system changes will be completed by June 30, 1993, and final system changes will be completed by September 30, 1993, to allow functional code entry.

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o The DBMS cannot be directly accessed by DeCA to update the Construction-in-Progress general ledger account. Therefore, the DFAS - Columbus Center must enter general ledger adjustments. The necessity of adjusting the Construction-in-Progress general ledger account will continue to create imbalances with the subsidiary appropriation history file. System changes that the DITSO made to the DBMS have been given a high priority by the Office of the Comptroller of the Department of Defense and should be completed by September 30, 1993. Only when the changes to the DBMS are completed will the fund general ledger accounts and subsidiary records be reconcilable.

o Consolidated accounting records correctly reflect assets acquired since DeCA was established, after being corrected for inappropriately recorded expenses. The Office of the Comptroller of the Department of Defense is assisting in obtaining prior year balances of the Military Departments. DeCA's FY 1992 financial statements are being adjusted as appropriate adjustments are identified. Action should be completed by September 30, 1993.

Capitalization Of Equipment

Condition. The Surcharge Collections fund's results of operations and financial position could be substantially misrepresented for FY 1992 because equipment either newly acquired or transferred from the Military Departments was not capitalized (recorded in the financial accounting system as an asset), and no provisions were made to stratify property accountability records in line with prescribed DoD capitalization and OMB classification criteria. Such practices are inconsistent with Federal regulations and represent material deficiencies in the internal control structure for controlling and recording equipment.

Background. DeCA has centrally managed all DoD commissaries since October 1, 1991. Before this date, each Military Department managed its own commissary system. When the Military Departments transferred the management of the commissaries to DeCA, equipment worth millions of dollars was also transferred. However, the Military Departments continued to make disbursements for equipment contracted for before October 1, 1991. This equipment included such items as cash registers, meat weighing and slicing machines, computers, refrigeration units, and furniture. DeCA budgeted about \$64 million (13 percent) of its FY 1992 Surcharge Collections Fund obligation authority to acquire new equipment for its stores.

The DoD Accounting Manual provides the principles and standards that activities should follow in accounting for equipment. Equipment is controlled by both the financial accounting system and a system of property accountability records. The accounting system identifies the dollar value of equipment in summary terms. Property accountability records provide detailed information on the quantities and unit prices used to underlay the dollar value of the equipment recorded in the financial accounting system.

Equipment is to be accounted for based on acquisition cost. According to DoD guidance, equipment should be capitalized and reported in financial statements when it has an acquisition cost or estimated fair market value of \$15,000 or more, and an estimated useful life to DoD of more than 2 years. Equipment not meeting this criteria is to be recorded in the financial accounting system as an operating expense. All equipment costing more than \$1,000 with a useful life of more than 2 years is treated as an asset for control purposes and recorded in the property accountability records.

OMB guidance on the preparation of agency financial statements requires that capitalized equipment be classified according to its status. The three classifications are described below.

- o Property held for sale is all surplus and capitalized equipment.
- o Property, plant and equipment, net is all capitalized equipment being used in operations, less accumulated depreciation, if any.
- o Other is all capitalized equipment that is not in operations and for which disposition decisions are pending.

Details. Through the first 11 months of FY 1992, no commissary equipment, either newly acquired or transferred from the Military Departments, was capitalized and accounted for as an asset. The Surcharge Collections Fund trial balance prepared by the DFAS - Columbus Center on August 30, 1992, did not include a general ledger asset account for commissary equipment. A general ledger account was not included because DeCA and the DFAS - Columbus Center had not developed procedures for identifying, processing, and recording equipment newly acquired or received from the Military Departments as capitalized assets. Further, the Military Departments did not classify as assets any FY 1992 disbursements for equipment ordered before FY 1992; therefore, all Military Departments' disbursements for equipment were classified as expenses by default to the Surcharge Collections Fund. Our limited review of the Military Departments' FY 1991 financial statements and property accountability records maintained at commissary stores showed that there was operating equipment on hand at the stores that should have been capitalized. For instance, the Air Force reported a year-end balance of equipment valued at approximately \$160 million in its FY 1991 financial statements.

DeCA's property accountability system did not contain sufficient information to support summary dollar amounts, if any had been recorded, in the financial accounting system for the FY 1992 financial statements. At the time of our review, DeCA was updating and recording equipment in its property accountability system to meet a March 1993 milestone. As planned, DeCA was to record all equipment for which the cost or value exceeded \$1,000 per item. A separate category was not included for equipment that met the DoD capitalization criteria of \$15,000 or more. Categorizing the equipment with a cost or value of over \$1,000 per item would be more encompassing than needed to support a summary dollar amount of capitalized equipment that cost \$15,000 or more. It would also include equipment that would be charged as an operating expense in the financial accounting system.

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DeCA's property accountability system, even if equipment were properly categorized, did not contain sufficient information to satisfy financial statement reporting requirements. DeCA had made no provisions in its update effort to classify capitalized equipment by status, which could have a material effect on the individual accounts within the Surcharge Collections fund financial statements. For example, DeCA was in the process of acquiring \$20 million of Air Force computer equipment, but had not decided on its disposition. If the equipment met the criteria for capitalization, it would have to be classified and reported as "Other" under OMB guidance.

Suggested Actions. We suggested that the Director, DeCA:

- o Develop, in coordination with the DFAS - Columbus Center, procedures for identifying, processing, and recording equipment receipt information as capital expenditures. The procedures should provide for the capitalization of assets costing or valued at \$15,000 or more and the expensing of equipment worth less than \$15,000 on the Surcharge Collections Fund financial statements.

- o Develop a plan for identifying newly acquired and transferred equipment meeting the DoD criteria for capitalization and the OMB guidance for reporting. Include, in the plan, steps to adjust the reported operating expense as appropriate in the financial statements.

- o Monitor the DFAS - Columbus Center's progress in recording the capitalization of equipment and, as appropriate, adjusting operating expense. If it appears that the capitalization of the FY 1992 equipment expenditures cannot be fully accounted for based on the recorded disbursements, develop alternate procedures, such as using previous financial statements and budgetary results, to estimate and report capitalized equipment in FY 1992 financial statements.

- o Make provisions in the property accountability system to identify equipment meeting the DoD criteria for capitalization and provide for classifying the equipment by status.

Agency Comments. DeCA agreed with our suggestions and stated the following.

- o A Financial Management Improvement Plan was developed to improve current procedures and controls over fixed assets. DeCA and the DFAS - Columbus Center stated that they were working to correct weaknesses in asset reporting. Changes to the general ledger accounts were to be posted using journal vouchers. The property accountability system was to include a depreciation module. The actions were to be completed by June 1993.

- o For FY 1992 financial reports and statements, the property accountability system download file was used to identify and summarize consolidated capital assets valued at \$15,000 and over. An off-line computer program was used to compute capital assets, transfers in, accumulated depreciation, depreciation expense, and present and salvage values. FY 1992

journal vouchers were used to adjust the property accountability system and come up with capital equipment summary balances. Actions were completed on FY 1992 financial reports dated October 4, 1992.

- o FY 1992 journal vouchers and documentation were provided to the DFAS - Columbus Center to support FY 1992 consolidated statements and reports. Because of system difficulties, the DFAS - Columbus Center was unable to update the general ledger accounts to produce asset and depreciation balances identified as transfers from the Military Departments. The FY 1992 DBMS accounts reflected all costs as operating expenses; however, fixed assets incorrectly recorded as expenses were adjusted by journal vouchers into asset accounts. Actions were completed on October 4, 1992.

- o System changes currently being developed by DITSO and coordinated with the DFAS will allow direct entry of asset adds, transfers, sales and disposals, with reduction and increases to depreciation expense and accumulated depreciation. DFAS indicated that function codes created do not currently update proper general ledger accounts. Therefore, until system changes are completed, all FY 1993 capital purchases will be entered by using the Industrial Plant Equipment code to allow update to the asset account. The Office of the Secretary of Defense has directed that DITSO give a high priority to the system changes to the DBMS. DITSO and the Office of the Comptroller of the Department of Defense anticipate correction to the system by September 1993. Therefore, until such time as the DBMS can accept direct update, DeCA will provide monthly journal vouchers to the DFAS - Columbus Center, which will record the journal voucher directly to the general ledger accounts, as necessary. After DITSO completes the necessary system changes, DeCA will publish procedures for general dissemination. Interim procedures will be published in January 1993; and final procedures will be available by December 31, 1993.

- o The property accountability system has the capability to identify capital assets and items subject to disposal or sale. Current DeCA procedures allow for identification of status and capitalization criteria. Action was completed on August 31, 1992.

Commissary Losses

Condition. The Surcharge Collections fund's results of operations and financial position for FY 1992 could be substantially misrepresented because commissary losses were not properly accounted for. Not properly accounting for commissary losses is contrary to Federal regulations and represents a material weakness in the internal control structure for controlling and recording financial information.

Background. DoD Regulation 1330.17-R, "Armed Services Commissary Regulations," requires that the actual or estimated losses of commissary merchandise due to shrinkage, spoilage, and pilferage be reimbursed with funds collected from commissary store patrons. Patrons pay for such losses through a

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surcharge on commissary prices at checkout. The surcharge allows the Resale Stock fund to revolve by buying and selling merchandise at cost. This includes losses of merchandise as well as facilities, equipment, and supplies due to fire, theft, explosion, power failure, storms, uncollectible checks, theft of funds, enemy actions, and acts of God. The DFAS - Columbus Center provides DeCA with accounting services for most Surcharge Collections Fund receipts and disbursements.

Details of Review. Normal resale operating losses were not accounted for as a means of seeking reimbursement from the Surcharge Collections fund financial accounting system. Procedures for controlling and recording financial information were included in a May 13, 1991, DeCA Financial Concept of Operation document. The document did not include procedures for recording a liability to the Surcharge Collections fund for normal operating losses. During FY 1992, commissaries performed very few inventories and made no physical inventory adjustments for losses from shrinkage, spoilage, and pilferage. Not having normal operating losses and accounting for them as a surcharge liability (assuming these are not offsetting inventory gains) is unrealistic. In fact, to permit the practical operation of stores, DeCA allows commissaries to incur physical inventory losses of up to .0065 of total sales. Applying this loss allowance to a DeCA estimated FY 1992 grocery sales of \$4.8 billion would have resulted in an "acceptable" loss of \$30 million to the Resale Stock fund and a liability of \$30 million to the Surcharge Collections fund.

Major losses were not properly funded. DeCA's Financial Concept of Operation document did not include procedures for complying with the requirements of DoD Regulation 1330.17-R. During FY 1992, there were at least two fires and one robbery at commissary stores. We visited the fire-damaged store at Lackland Air Force Base in San Antonio, Texas. Store officials had maintained a detailed record of expenses incurred as a result of the fire. The fire caused about \$1.2 million in damages, of which \$167,420 was paid from the Surcharge Collections fund. The largest of the expenses involved cleaning up soot and smoke damage. Since such expenses were fire-related, they fell within the DoD Regulation 1330.17-R definition of major losses, and therefore, should not be funded by commissary patrons via the Surcharge Collections fund.

Suggested Actions. We suggested that the Director, DeCA:

Develop, in coordination with the DFAS - Columbus Center, procedures for identifying, controlling, and recording normal operating and major losses.

Agency Comments. DeCA generally agreed with our suggestion and stated that it would coordinate with DFAS to determine if the guidance contained in DoD Regulation 1330.17-R, "Armed Services Commissary Regulation," requires further supplementing. DeCA also felt that our use of \$30 million as an indication of normal operating losses for the year was misleading because it was based on a management indicator and not physical inventories and because it does not take inventory gains into account.

Recording Miscellaneous Revenues

Condition. The Surcharge Collections fund's results of operations and financial position for FY 1992 could be misrepresented because miscellaneous revenues of the fund have either not been recorded when earned or not recorded at all. A material deficiency in the internal control structure for controlling and recording financial information results when accounting for miscellaneous revenues is inconsistent with Federal regulations.

Background. Most store operating expenses, except salaries, are paid by the Surcharge Collections fund. Its revenues are primarily generated by a 5-percent surcharge added to customers' purchases at the checkout counters. Surcharge collection revenues are also generated from commissary operations. While miscellaneous revenues may represent a relatively small amount of the Surcharge Collections fund revenues, full accountability is warranted. OMB guidance prescribes that annual revenues of over \$1 million are to be considered potentially substantial. As of September 30, 1992, the DFAS - Columbus Center had recorded about \$9.9 million in miscellaneous Surcharge Collections fund revenues. Miscellaneous revenues are derived from:

- o taking discounts on vendor invoices from the purchase of resale merchandise,
- o selling salvage such as used cardboard and excess equipment,
- o selling prime shelf space to vendors for merchandising promotions,
- and
- o charging vendors for use of commissary distribution services.

The DoD Accounting Manual provides the principles and standards that activities should follow to account for revenues and accounts receivable. The DoD Accounting Manual states that accrual accounting can materially contribute to effective financial control over resources and is essential to the development of adequate financial management information. The key requirement to a proper accountability for revenues and accounts receivable is that they be recorded when earned. For any given accounting period, revenues and accounts receivable must be recorded as earned to adequately represent an activity's results of operations (revenues) and financial position (assets).

We analyzed the recording of miscellaneous revenues from two sources, vendor discounts earned and sales of salvage. Together the two sources made up 99 percent of the miscellaneous revenues recorded as of September 30, 1992.

Details. Discounts taken on vendor invoices for the purchase of Resale Stock fund merchandise were not recorded as Surcharge Collections fund revenues when earned. The Cash discounts are initially accounted for by the DFAS - Columbus Center in the Resale Stock fund account, Discounts Earned. Monthly, the DFAS - Columbus Center is supposed to transfer discounts earned

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from the Resale Stock fund account to the Surcharge Collections fund. For the first 7 months of FY 1992, the DFAS - Columbus Center did not transfer any discounts earned to the Surcharge Collections fund. On April 27, 1992, the DFAS - Columbus Center made the first transfer of about \$3 million, which represented accumulated discounts earned through the end of March. Discounts earned in April (the current month) and subsequent months could not be transferred until after the Resale Stock fund accounts had been closed out at month end. Making an adjustment after close out is an accepted accounting procedure; however, the DFAS - Columbus Center should have also posted an adjustment to the Surcharge Collections fund accounts receivable ledger to reflect discounts earned or accrued in the current month. Based on a DeCA - prepared analysis, discounts earned could well exceed \$1 million per month if bills are consistently paid in accordance with vendor discount terms.

Sales of salvage were not recorded as Surcharge Collections fund revenues when earned, and not all disposals of salvage resulted in Surcharge Collections fund revenues. Through the first 6 months of FY 1992, the DFAS - Columbus Center recorded about \$366,000 in revenues from the sale of cardboard and excess equipment. In a May 1992 evaluation of the Surcharge Collections fund budget, DeCA estimated that revenues from sales of salvage were about \$1.5 million less than anticipated. To determine the reason for this shortfall, we analyzed the turn-in process for salvage. By regulation, commissaries are to turn in salvage to contractors hired by the Defense Reutilization and Marketing Service, which awards salvage contracts and collects proceeds for all DoD Components by region. Proceeds are prorated based on the weight recorded on turn-in documents and, for commissaries, are sent to the DFAS - Columbus Center for deposit in the Surcharge Collections fund. While the mechanics for disposing of salvage are in place, DeCA had not developed the policies and procedures necessary for financial and program control.

DeCA had not developed adequate procedures for identifying and reporting to the DFAS - Columbus Center information necessary to establish accounts receivable for salvage turned in. In May 1991, DeCA published a Financial Concept of Operation, which included managing collections from salvage sales. The guidance did not prescribe the required forms and paperwork needed for the DFAS - Columbus Center to establish accounts receivable; and it was not detailed enough to document time frames and transaction flows from the commissaries to the DFAS - Columbus Center. Establishing accounts receivable would help to ensure that the proper amounts were received for turn-in as well as to provide the means for recording revenues when earned; that is, when commissaries turn in salvage to hired contractors. During our review, reported revenues from the sale of salvage consisted solely of actual cash collections from Defense Reutilization and Marketing Service Regions and were understated by the amount of proceeds for salvage turned in to hired contractors and not yet reimbursed by the contractors and in turn the Defense Reutilization and Marketing Service Regions.

DeCA had not established adequate policies and procedures for controlling the disposal of salvage and receiving related revenues. DeCA's Financial Concept of Operation stated that its regions were responsible for monitoring collections from the sale of salvage. However, the concept was not being carried out. Of

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the 11 commissaries we visited, 2 did not have agreements with the Defense Reutilization and Marketing Service for regularly disposing of salvage. We queried the Defense Reutilization and Marketing Service and determined that only 125 of 390 commissaries had turned in 719 lines of salvage in the first quarter of FY 1992. For unknown reasons, 299 of the turn-in documents were not coded as reimbursable. During our review, reported revenues from the sale of salvage were understated, not only by the amount of proceeds owed from the Defense Reutilization and Marketing Service (unrecorded accounts receivable), but also by the amount of salvage disposed of without reimbursement by the Defense Reutilization and Marketing Service.

Suggested Actions. We suggested that the Director, DeCA:

- o Coordinate with the DFAS - Columbus Center to record an accrued amount in the accounts receivable ledger of the Surcharge Collections fund to account for vendor discounts earned, but not yet transferred from the Resale Stock fund.

- o Develop, in coordination with the DFAS - Columbus Center, detailed procedures for establishing an accounts receivable for salvage turned in to the Defense Reutilization and Marketing Service, but for which reimbursement had not been received.

- o Establish policy and procedures for commissaries to turn in all salvage for reimbursement to the Defense Reutilization and Marketing Service and instruct them on the preparation of turn-in documentation.

- o Explain the undervaluation of discounts earned and salvage sales in notes to FY 1992 financial statements.

- o Estimate expected revenues from discounts earned and salvage items sold as a basis for future performance measurement and comparative analysis.

Agency Comments. DeCA agreed with the suggestions and stated the following.

- o The DFAS - Columbus Center has revised procedures for recording Commissary Resale Stock Fund discounts earned. Because of the short time frame between the Standard Finance System month end and the DBMS monthly management cycle, documentation is transmitted to the DBMS personnel. If the documentation is not received in time to record the collection, the general ledger account, Reimbursements Earned - Uncollected, is used. The earnings are presently being recorded in the correct accounting period. Actions were completed on this item in June 1992.

- o An estimated dollar value of expected proceeds from salvage or unusable excess equipment will be determined at the point of turn-in to a Defense Reutilization and Marketing Service Office. Procedures will be coordinated with the Defense Reutilization and Marketing Service and the

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DFAS - Columbus Center and incorporated into DeCA Directive 70-6, "Financial Procedures for Store Management Support Center." Expected completion date was April 30, 1993.

- o DeCA Directive 40-2, "Operations - Equipment, Supplies, and Services," paragraph 3-6, "Unserviceable Equipment," contains guidance and instructions for the preparation of turn-in documentation. Paragraph 3-6 also provides the appropriation data for the receipt of proceeds from the sale of unusable equipment. Action was completed on this item when DeCA Directive 40-2 was published on July 19, 1992.

- o The undervaluation of vendor discounts, revenues from salvage sales, and other miscellaneous revenues in FY 1992 were caused by the methodology used to process Transactions for Others and Transactions by Others accounts. All transfers of monies were made using one reimbursement source code. Effective October 1, 1992, all miscellaneous revenues, excluding discounts earned, are deposited directly to the Surcharge Collections Fund. Documentation supporting the deposits are maintained to identify the particular revenues. These methodology problems were identified in DeCA's Chief Financial Officers' Act statements completed on January 28, 1993.

- o Discounts earned in FY 1993 are an initial basis for future performance measurement and comparative analysis. However, other miscellaneous revenues lost their identity during the previous Transactions for Others and Transactions by Others process, which has now been corrected. Therefore, future performance will be a quarter by quarter analysis of FY 1993 performance. This action will be closed with the analysis of data received through March 31, 1993. Expected completion date was April 30, 1993.

Recording Operating Expense

Condition. The Surcharge Collections fund's results of operations and financial position for FY 1992 could be substantially misrepresented because operating expenses were not fully accounted for on an accrual basis. Not fully employing an accrual accounting system is inconsistent with Federal regulations and represents a materiel deficiency in the internal control structure for controlling and recording financial information.

Background. Accounting principles provide for recording expenses by either a cash basis (when paid) or accrual basis (when incurred). On a cash basis, the expense is supported by a payment voucher. However, in this case, making a corresponding accounts payable entry would be perfunctory because it would be liquidated simultaneously. On an accrual basis, the expense is supported by documentation that the material or service contracted for was received. Making a corresponding accounts payable entry, in this case, would be necessary because it would establish liability for the goods and services received.

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The DoD Accounting Manual states that accrual accounting can materially contribute to effective financial control over resources and is essential to the development of adequate financial management information. For any given accounting period, expenses and accounts payable must be recorded as incurred to adequately represent an activity's results of operations and financial position (liabilities).

DeCA budgeted \$169 million (36 percent) of its FY 1992 Surcharge Collections fund obligations for operating expenses. A DeCA expenditure profile also showed that \$103 million (61 percent) of the operating expenses would be paid in FY 1992. The balance of \$66 million was to be accounted for either as accounts payable or undelivered orders depending on whether the material or service contracted for was received.

Details. Through the first 6 months of FY 1992, the DFAS - Columbus Center had recorded only \$18.5 million of Surcharge Collections fund operating expenses compared with planned annual expenditures of up to \$169 million. Almost all of the \$18.5 million of expenses had been paid. As of March 31, 1992, accounts payable for operating expenses amounted to only \$73,000, less than 1 percent of the recorded operating expenses. In contrast, in its FY 1991 financial statements, the Air Force reported that accounts payable were 18 percent of recorded operating expenses at year end. The accounting records of the DFAS - Columbus Center suggested that operating expenses were being largely accounted for when paid and that actual expenses and liabilities (accounts payable) were substantially understated.

Commissary stores or regions did not promptly process service receipt information or the DFAS - Columbus Center did not promptly process receipts. Commissary stores were to notify their regions when services were received and provide hard copy receipts to the DFAS - Columbus Center. Regions with processing access to the DFAS - Columbus Center's automated accounting system were to update operating expense and accounts payable files. The DFAS - Columbus Center was to make payments or reimbursements based on hard copy receipts and billing requests from the appropriate finance and accounting office. We noted a consistent pattern of expenses being recorded late and at the same time as disbursements. For example, in FY 1992 the Fort Sam Houston commissary store had incurred \$153,309 in utility operating expenses as of April 30, 1992. April's utility expenses were \$14,695. The Fort Sam Houston Finance and Accounting Office, which provided this information, had actually paid the bills and requested reimbursements from the DFAS - Columbus Center on a monthly basis. The Fort Sam Houston Finance and Accounting Office requested reimbursement of \$138,614 (\$153,309 minus \$14,695) for the first 6 months of utility expenses. According to the DFAS - Columbus Center's records, the commissary store had incurred only \$51,209 in utility operating expenses with all bills reimbursed as of April 30, 1992. No accounts payable were recorded; however, the DFAS - Columbus Center's records represented only 3 months of utility operating expenses, October and November 1991 and February 1992. If the receipts and billing requests had been properly processed for the first 6 months, the DFAS - Columbus Center would have recorded \$153,309 in utility operating expenses and \$14,695 in accounts payable as of April 30, 1992.

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Delays in recording operating expenses and accounts payable could significantly affect the accuracy of the Surcharge Collections fund FY 1992 financial statements. With the myriad of commissary stores and finance activities involved, it may be impractical to get a timely picture of expenses and accounts payable, based solely on source documentation. Chapter 41 of the DoD Accounting Manual provides procedures for making significant temporary adjustments based on documented estimates. The use of alternate procedures may be the only means of realistically disclosing operating expenses and accounts payable on the FY 1992 Surcharge Collections fund financial statements.

Suggested Actions. We suggested that the Director, DeCA:

- o Require commissary regions and stores, together with servicing finance and accounting offices if applicable, to research and eliminate any delays in processing receipt and billing information.

- o Request the DFAS - Columbus Center to review its processing of receipt and billing information to identify and eliminate any posting delays.

- o Determine, by reasonable and prudent review in accordance with chapter 41 of the DoD Accounting Manual, whether significant unrecorded expenses and accounts payable exist and whether adjusting journal vouchers should be provided in the preparation of the FY 1992 financial statements.

Agency Comments. DeCA agreed to our suggestions and stated the following.

- o The requirement that commissaries and regions promptly input receipt data will be reinforced with a letter to region directors or commanders and the requirement will be incorporated into commissary or region inspector general checklists by November 20, 1992. Additionally, DeCA will work with the DFAS - Columbus Center to find reasonable and cost-effective methods of recording operating expenses. The plan was to be developed by March 31, 1993.

- o Initial milestones to improve financial operations were developed at a meeting held with the DFAS - Columbus Center October 27 through 29, 1992, to identify reasons for delays in making and posting disbursements. A joint corrective action plan to reduce the delays identified was to be developed by March 31, 1993.

- o The understatement of operating expenses and accounts payable would be addressed in the FY 1992 input to the DoD's Chief Financial Officers' Act financial statements due by December 1992. Reasonable estimates of the understatements would be reflected and explained in the FY 1992 financial statements or notes to the statements.

Appendix B. Organizations Visited or Contacted

Defense Commissary Agency

Defense Commissary Agency, Headquarters, Fort Lee, Petersburg, VA
Defense Commissary Agency, East Service Center, Fort Lee, Petersburg, VA
Defense Commissary Agency, Northeast Region Headquarters, Fort Meade, Laurel, MD
Defense Commissary Agency, Midwest Region Headquarters, Kelly Air Force Base, San Antonio, Texas
Fort Sam Houston Commissary, San Antonio, Texas
Kelly Air Force Base Commissary, San Antonio, Texas
Lackland Air Force Base Commissary, San Antonio, Texas
Defense Commissary Agency, Southwest Region Headquarters, El Toro Marine Corps Air Station, El Toro, CA
El Toro Marine Corps Air Station Commissary, El Toro, CA
Orange County Central Distribution Center, Santa Ana, CA
March Air Force Base Commissary, Riverside, CA
San Diego Naval Station Commissary, San Diego, CA
North Island Naval Air Station Commissary, San Diego, CA
Defense Commissary Agency, West Service Center, Kelly Air Force Base, San Antonio, TX
Fort Meade Commissary, Laurel, MD
New Cumberland Commissary, New Cumberland, PA
Philadelphia Naval Base Commissary, Philadelphia, PA
Aberdeen Proving Grounds Commissary, Aberdeen, MD
Dover Air Force Base Commissary, Dover, DE
Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service, Columbus Center, Columbus, OH
Headquarters, Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Reutilization and Marketing Service, Columbus Region, Blacklick, OH
Defense Reutilization and Marketing Service, Philadelphia Office, Philadelphia, PA

Defense Information Technology Services Organization

Department of the Air Force

3303 Contracting Squadron, Randolph Air Force Base, San Antonio, Texas
Dover Air Force Base Contracting Office, Dover, DE

Appendix C. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Force Management and Personnel)
Assistant to the Secretary of Defense for Public Affairs
Comptroller and Chief Financial Officer of the Department of Defense
Deputy Chief Financial Officer of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Director, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, U.S. Air Force Audit Agency

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information and Technology Service Organization
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Director, Defense Reutilization and Marketing Service
Inspector General, Defense Intelligence Agency
Director, National Security Agency/Central Security Service

Non-Defense Federal Organizations

Office of Management and Budget

U.S. General Accounting Office

National Security and International Affairs Division, Technical Information Center

National Security and International Affairs Division, Defense and National

Aeronautics and Space Administration Management Issues

National Security and International Affairs Division, Military Operations and

Capabilities Issues

Chairman and Ranking Minority Members of Each of the Following Congressional
Committees and Subcommittees:

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Government Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Governmental Operations

House Subcommittee on Legislation and National Security, Committee on
Government Operations

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**Part V - Defense Commissary Agency
Commissary Surcharge
Collections Fund - Financial
Statements For FY 1992**

Defense Commissary Agency

FY 1992 Annual Financial Report



**COMMISSARY
SURCHARGE
COLLECTIONS**

March 31, 1993

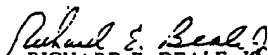
Note: Blank pages in the DeCA Surcharge Collections Fund Financial Statements were omitted from this report.

DIRECTOR'S MESSAGE

As the Defense Commissary Agency's new Director, I look forward to the challenge of managing the eighth largest grocery chain in the United States. The commissary privilege is considered the most valuable non-pay compensation benefit, by service members and their families, after medical care. It is also a key benefit to our military retirees and members of the Reserves and National Guard. I am personally committed to seeing that the Agency's primary objective -- to make quality goods available to the customer at the lowest possible cost -- is upheld, and that the savings envisioned by the Jones Commission are realized through the commitment and dedication of DeCA employees worldwide.

DeCA has operated DOD's consolidated commissary system for more than a year. The consolidation of four distinct and different commissary systems into one, within a very compressed time period, was a challenge exceeding any known merger in the private sector. This timeline, when compounded with the manpower drawdown mandated by the Jones Commission, made implementing new systems and procedures very difficult. Additionally, there was no tested, proven model available to project end results. Finally, the requirement to produce savings of fifty million dollars in the first year caused DeCA to cope with inevitable unforeseen consolidation expenses.

These challenges had their effect, not only on corporate DeCA, but also on our financial statements. We focused our initial efforts and resources on paying our vendors, since we had to begin operations without the objective business system envisioned by the Jones Commission. We sought and received help from the DOD Comptroller, the Defense Finance and Accounting Service, the DOD Inspector General, our partners in industry, and many others. With our first year behind us, we have largely adapted, and are moving forward with the fielding of an interim business system. We look forward to improved operations in Fiscal Year 1993.


RICHARD E. BEALE, JR.
Major General, USA
Director

DEFENSE SURCHARGE COLLECTIONS FY 1992 ANNUAL FINANCIAL REPORT

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SECTION 1

OVERVIEW

DESCRIPTION OF THE REPORTING ENTITY

The Defense Commissary Agency (DeCA) is an element of the Department of Defense under the supervision of the Under Secretary of Defense (Acquisition) through the Assistant Secretary of Defense (Production and Logistics). DeCA was formed after the House Armed Services Committee-appointed Jones Commission found that a single agency could operate the commissary system more efficiently and at a lower cost. After fifteen months of intense planning and coordination, DeCA was officially activated on October 1, 1991. DeCA now manages and operates a worldwide network of systems managing 22,000 people, encompassing nearly 400 commissaries worldwide, and totaling more than \$6 billion in annual sales.

Mission

DeCA's mission is to operate the network of retail grocery sales stores, making quality goods available at the lowest possible cost to members of the U.S. Military Services. Commissary patrons include members of the Military Services, retirees, members of the Reserve and National Guard and authorized family members. This is a quality of life benefit that improves the armed Services' efficiency. DeCA also provides a training environment for wartime support operations, and provides troop issue subsistence support to military dining facilities in accordance with the needs of the Services.

The Agency is headquartered at Fort Lee, Virginia. The headquarters command element and staff manages the total resources of all DoD commissaries worldwide, including personnel, facilities, supplies, equipment and funds. The headquarters has oversight of a worldwide system of seven regions, districts within several of those regions, and two service centers.

DeCA Regions

<u>Region</u>	<u>Location</u>
Central	Little Creek Naval Amphibious Base, VA
Northeast	Fort Meade, MD
Southern	Maxwell Air Force Base, AL
Midwest	Kelly Air Force Base, TX
Southwest	El Toro Marine Corps Air Base, CA
Northwest-Pacific	Fort Lewis, WA
European	Ramstein Air Force Base, Germany

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Each region headquarters encompasses several divisions, including Operations, Resource Management, Information Resources Management, Facilities, Personnel and Training, Contracting and Auditing. Several of the regions are divided into districts for localized management support.

Region headquarters provide technical advice, assistance, training and direction pertaining to resale and troop issue functions to all locations under their jurisdiction. The region office staff also acts as liaison for DeCA Headquarters with all commissaries and installation commanders within the region. Region commanders and directors report personally to DeCA's Deputy Director. They are responsible for ensuring the accomplishment of all phases of the DeCA mission, including policy implementation, customer service, safety and security, computer systems, goals and operating standards, manpower requirements, training programs and stockage requirements. They are also the accountable officers for all region assets and resources.

Service Centers

DeCA's two service centers are located at Fort Lee, Virginia (East Service Center), and Kelly Air Force Base, Texas (West Service Center). The East Service Center has responsibility for all commissaries, districts and regions east of the Mississippi, including Europe; the West Service Center has the identical duties for locations west of the Mississippi, including the Pacific.

The centers are responsible for analysis and reconciliation of accounting transaction data between the inventory management system and the official accounting system. They provide accounts management, including accounts payable reconciliation of receipts and vendor invoices voucher preparation; and disbursement officer certification for payment of funds. The service centers also perform contracting for resale merchandise, services and supplies. The West Service Center is the focal point for the DeCA merchandise coupon program.

Agency Funding

DeCA is funded from three congressionally-approved sources:

(1) Commissary Resale Stock (97X4930 5K00) accounts for the purchase of resale stock items - primarily groceries and war reserve materials. The fund is a sub-apportionment of the Defense Business Operations Fund (DBOF). Revenues are recognized at the point of sale.

DeCA Surcharge Collections Fund Financial Statements

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(2) Commissary Operations (97X4930.5J00) accounts for direct and indirect costs of store operations. Also sub-apportioned from the DBOF, authorized revenues for this account are established as a percentage of sales. The lions share of this account is expended for civilian and military pay. Expenses are recognized upon consumption. This account contains a capital budget limitation subject to provisions of 31 USC 1517.

(3) Commissary Surcharge Collections (97X8164) revenue is generated by a surcharge added to grocery sales at checkout. The money generated by this surcharge is used to build, renovate and upgrade commissaries; and defrays store-level operational expenses like equipment, utilities, bags, plastic wrap, etc. The largest share is used for building new commissaries and modifying existing structures. These monies are congressionally apportioned to DeCA. Budgetary resources for Commissary Surcharge Collections in FY 92 also included unfunded contract authority. The fund operates subject to the provisions of Section 1517 of 31 USC, relevant portions of Title 10 USC and DoD 1330.17-R.

Defense Commissary Advisory Board

The Defense Commissary Advisory Board is responsible to the Assistant Secretary of Defense (Production and Logistics). It functions as a forum for discussion of commissary issues. The Board consists of the DeCA Director, who serves as chairman; a representative of the chairman of the Joint Chiefs of Staff; one military officer and one enlisted representative from each of the Military Services, appointed by the secretaries of the military departments; and other invited representatives.

The board meets annually, or more often as needed, to exchange information between the DeCA director and the military departments. It considers key aspects of DeCA operations, services and resources and makes recommendations on policies and programs.

The board also provides advice on funding and recommends priorities for the commissary construction program. Its main objective is to enhance patron service and ensure that a financially solvent and responsive system is maintained to benefit commissary patrons.

BACKGROUND OF THE CONSOLIDATION

The Defense Commissary Agency (DeCA) was activated on October 1, 1991. DeCA's mission is to operate a worldwide system of retail grocery sales stores, making quality goods available at the lowest possible cost to service personnel, retirees and their families. DeCA also is responsible for assisting in wartime troop support and maintaining stocks of subsistence materials.

The consolidation of the Military Services commissary systems under the DeCA was more complex than previous consolidations within the Department. The substantial differences and incompatibilities of the distribution, pricing, contracting, bill paying, and accounting systems of the four Military Services commissary operations mandated standardization in order to achieve the benefits of consolidation. The consolidation required the establishment of accounting systems, organization responsibilities and document flows to provide stewardship and accountability for funds provided to the DeCA.

A major objective of the consolidation was to achieve improved item availability for the commissary patron while saving taxpayer dollars through better inventory management by using food industry practices. DeCA's distribution system utilizes a combination of central distribution centers (CDCs) and "just-in-time" inventory from distributors or vendors for delivery to the commissary store shelf. For remote commissaries, sufficient inventory levels are maintained in backrooms to meet sales demands considering the product availability from vendors.

DeCA used the existing Services' CDCs, and new CDCs to support all commissaries within a geographic area regardless of former Service affiliation. This required integrated procedures and compatible pricing, contracting, bill paying and accounting systems.

The "just-in-time" inventory methodology was developed and implemented with industry participation, using a Total Quality Management approach, to ensure a workable system which was beneficial to all parties. The current standardized process requires deliveries to be rolled-up from the 1st - 15th and from the 16th to month-end to reduce invoicing/billing costs for industry and the government's processing costs. In addition, the vendor obtains preferable payment terms in net 23 days vs the normal net 30 days. The roll-up method of invoicing used by DeCA does not apply to products which require payment either in 7 or 10 days under the Prompt Payment Act. This is consistent with the manufacturers' desires. Also, roll-up invoicing does not apply to products delivered using other than the "just-in-time" methodology.

DeCA Surcharge Collections Fund Financial Statements

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DeCA implemented a region based central buying and pricing concept for resale items. Under this concept the regions have professional buyers who negotiate the best prices with the vendors by combining quantities of items for all commissaries or CDCs in the region. The vendors provide the region buyers their price quotes with the effective dates. The region, in turn, sends the prices to the commissaries and CDCs for use in ordering, receiving and selling the items. This concept uses DeCA's buying power to get the best prices and quality products; and, it ensures uniformity of item pricing between commissaries in the same pricing zone.

The Military Services' commissary organizations used different systems for buying and pricing resale items that directly impacted the efficiency of DeCA's operations initially. The Military Services' systems were incompatible and had to be melded into a single system to effect the consolidation of commissaries. The Military Services' buying and pricing systems ranged from highly centralized at the region or complex level to fully decentralized at the commissary. When DeCA took over October 1, 1991, interfaces needed to be developed to continue using Navv and Air Force automated commissary systems for central pricing until DeCA's Interim Business System (DIBS) could be fully deployed. The Marine Corps' commissaries and CDCs were the first to convert to DIBS on October 1, 1991, because of the cost to maintain their proprietary system. Under DeCA, the former Army commissaries now receive their pricing from the respective region; however, they continue to use the same manual methods to enter prices into their front end cash register systems and to transmit receiving data using a PC to the DeCA Standard Voucher Examination System (SAVES). As the DIBS is deployed to all commissaries and CDCs it will provide vendors the capability to electronically transmit price quotes to the regions. This should substantially reduce or eliminate pricing discrepancies, a problem that has continually challenged commissaries.

DeCA's concept was to establish a single contracting office at the West Service Center to issue all resale contracts and a contracting office at the East Service Center to issue all other contracts, i.e., for equipment, supplies and services needed by DeCA organizations. This approach provided vendors supplying DeCA with a standard method to get a contract and, depending on the nature of the procurement, one location for contracts. It also provided the contracting support at a lower overall cost than would have been possible if all the former contracting offices used by the Military Services' commissary systems had been retained. It was concluded that "capitalization in place" was not feasible as it would have required modifying over 60,000 contracts used by the military Services and maintaining them in many contracting offices. In addition, the differences in distribution types and the realignment of commissaries, troop issue activities and CDCs under the DeCA regionalization made "capitalization in place" impossible.

For the resale contracts, DeCA adopted a regionalized approach to reduce the number of contracts needed and the associated maintenance costs to both the Government and industry. Under this concept, a vendor was issued a single contract for each type of distribution method and department, i.e., grocery, meat or produce, for all commissaries, troop issue activities and CDCs serviced by the vendor within the region. This approach dra-

DeCA Surcharge Collections Fund Financial Statements

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matically reduced the number of commissary resale contracts by some 57 percent, from the approximate 60,000 contracts used by the Military Services' commissary systems to about 25,000 contracts in DeCA's system. A reduction of this magnitude translates into savings for the Government and industry.

Prior to DeCA there were over 100 bill paying activities and 22 commissary regions/complexes. The consolidation resulted in two bill paying offices and seven regions. DeCA could not use all of the different bill paying and accounting systems of the Military Services' commissary systems after the consolidation and maintain essential funds control to execute a \$6.5 billion annual resale program. DeCA's concept was to centralize and standardize bill paying and accounting systems to provide funds control, reduce operating costs, and simplify the number of required interfaces from the commissary business systems.

The Jones Commission-DOD Study of Military Commissary System recognized the need to reduce the 100 bill paying offices supporting the military Services' commissary systems. The study recommended consolidating the bill paying function at the commissary regions. DeCA, to stay within the dictated manpower constraints and to achieve further efficiencies, consolidated bill paying at two service centers located East and West to service the respective regions in those areas of the continental United States. Furthermore, DeCA selected the Defense Finance and Accounting Service- Columbus Center (DFAS-CO) to provide centralized accounting and disbursing support for its regions and commissaries at a lower overall cost. This centralization of bill paying and accounting was made possible through use of the Defense Logistics Agency communication network which enables the DeCA Headquarters, service centers, regions, commissaries, troop issue activities and CDCs to be linked with the bill paying and accounting systems from all locations in the continental United States, Hawaii and Alaska. In addition, the DeCA civilian payroll for over 17,000 personnel was centralized at the DFAS-CO from some 70 payroll offices at a lower cost. In the European Commissary Region, a similar consolidation of over 2,000 civilian personnel payroll records was accomplished at the 266th Army Theatre Area Finance Command in Heidelberg, Germany to reduce processing costs.

In selecting the bill paying and accounting systems, DeCA evaluated those used by the former military Services' commissaries and the Defense Logistics Agency's systems. Additionally, DeCA coordinated with the Department's Corporate Information Management Groups working on bill paying and accounting systems; and the Defense Finance and Accounting Service (i.e., implementation team and the headquarters after January 20, 1992).

The Army's Standard Accounting and Finance System (STANFINS) and the Standard Automated Voucher Examination System (SAVES) were selected for DeCA's resale stock accounting and bill paying, respectively. The systems were selected because tests proved they could process DeCA's consolidated workload volume; the automated interfaces between the accounting and bill paying modules already existed and were proved successful over the prior five years. Also, the former Army commissaries, representing 31 percent of

DeCA Surcharge Collections Fund Financial Statements

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the stores, were experienced on the system and required minimal retraining; and the accounting system was compatible with the standard civilian payroll system at the DFAS-CO which eliminated the need for multiple computers. In addition, the DFAS certified the capabilities and controls of the SAVES for bill paying in July 1991 in a Federal Managers Financial Integrity Act (FMFIA) review of the system.

The bill paying system, SAVES, that DeCA is using is contract based. The system validates receipt and invoice information at the time of data input and will not accept the input if the contract is not in SAVES; or if the commissary, troop issue activity, or CDC are not authorized to use the contract; or the order (i.e., call) number was previously used by the commissary/troop issue activity/CDC.

Each day the commissaries, troop issue activities and CDCs key in their receiving data to their business system where it is validated for contract and call number. The receipt file is transmitted each evening to the SAVES computer at the DeCA East Service Center through our communications network. The vendor sends invoices to either the East or West Service Center depending on the billing address in the contract. The mail room supporting each service center opens the mail daily, date stamps each invoice, and delivers the invoices to the bill paying organization in the service center.

In the service center's bill paying organization, the invoice is reviewed to determine if it meets the requirements for a proper invoice set forth in OMB Circular A-125. If not, it is returned to the vendor with a letter explaining the problem. The invoice requirements are vendor's name; contract number; item description, unit price, quantity; extended and totalled dollar amounts; payment terms; name of delivery location; vendor's "remit to" address; and vendor point of contact and telephone number. Once the invoice is reviewed to determine if it contains the required elements, it is keyed into SAVES and validated at the point of entry for valid contract number; commissary/troop issue activity/CDC authorized to use contract; and duplicate call number. If the invoice does not pass the edit criteria, the invoice is returned to the vendor with a letter explaining the problem.

Once the invoice is entered into SAVES, the system searches during the end-of-day processing cycle for a matching receipt based on the contract and call (i.e. order) number. If the invoice and receipt are matched, the system determines if the dollar amounts agree. The SAVES will automatically reconcile the invoice amount down to the receipt amount when the difference between the receipt and invoice does not exceed \$200. If the invoice is more than \$200 higher than the receipt amount, a manual reconciliation will be performed by the service center bill paying organization. Payment vouchers furnished the vendor with the check show reason codes to explain any differences in the amount invoiced and paid.

The SAVES automatically considers discount terms offered by the vendor when the invoice and receipt are matched; and, SAVES determines if discounts are cost effective for the Government. The discount period is calculated automatically by SAVES from the date

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of invoice. If the terms are favorable, the system schedules the payment to take the discount. If the terms are not favorable, the system will schedule the payment for the net terms of the contract.

If the payment was made outside the net contract terms, interest is automatically calculated by SAVES and added to the payment. The vendor's copy of the voucher also shows the interest paid. SAVES automatically computes the interest due on late payments based on the later of the date the invoice was received in the mail room or the date of delivery of the items at the commissary/troop issue activity/CDC. Improper invoices are returned to the vendor within seven days and do not incur interest.

On the payment due date, the SAVES produces a payment file and a voucher file which are electronically sent to the DFAS Columbus Center for producing the check and voucher. The DFAS Columbus Center matches the voucher with the check and mails the payment to the vendor.

FINANCIAL IMPACT OF START-UP PROBLEMS

The Defense Commissary Agency (DeCA) was activated on October 1, 1991 as a result of the Jones Commission DOD Commissary Study to consolidate the Air Force, Army, Navy, and Marine Corps commissary systems. Non-compatible automated systems and diverse operating procedures were major obstacles DeCA had to confront during its first year of operation. These start-up problems were also prevalent in the following financial areas:

Accounting systems employed for DeCA resale activity were placed into operation shortly before DeCA's activation. Although testing was performed, not all problems were identified prior to start-up. Minor problems became evident in the Continental United States (CONUS) application during the early months of operation, and most were resolved as they were identified. However, after capitalization of the prior Services' inventories, it became evident that resale accounts payable and inventory balances in CONUS were overstated, and further research disclosed that the problem existed at start-up. At the Office of the Secretary of Defense's direction, a team was established under the supervision of the DOD Comptroller to identify all problems in the resale accounting system, and to establish and execute a plan to resolve the problems. The team's mandate is to resolve the specific issues related to overstatement of inventories and accounts payable, and to resolve other outstanding issues related to the CONUS resale accounting system by mid-1993.

EXPENSES

Accounting systems currently providing support to DeCA do not provide detail expense data by general ledger account code (GLAC). DeCA employed the Defense Business Management System (DBMS), (an existing accounting system) to perform the accounting function for its commissary operations and surcharge collections accounts. In DBMS, operating expenses for FY 92 were not accrued in the period during which performance occurred. Instead, expenses were largely recorded at the time of disbursement. As a result, expenses are understated in the financial statements. Expense information at the detail object class level is provided by the accounting system servicing the European theater operations. However, the accounting system that services CONUS operations provides only summary expenses (not by GLAC or object class). At present, a download extract is provided; however totals do not agree with summary expense totals from the DFAS trial balance report. As a result, expense amounts reflected in these reports for

DeCA Surcharge Collections Fund Financial Statements

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Commissary Operations are accurate at bottom line, but aside from payroll costs, the object class distribution is based on a representative DeCA region. Real Property Maintenance expenses totaling approximately \$21.9M are included in the "Contractual Services" object classification.

Fund Balances with Treasury, Cash and Foreign Currency

(1) **Unexpended Appropriations:** The amount reported for Commissary Operations (\$170.0M) is understated in FY 92 by approximately \$3.8M. The reason for the understatement is a transfer of funds from surcharge collections that was not processed as an increase to income during the fiscal year. The omission was discovered after submission of the TFS 2108.

(2) **Cash:** The cash balance reflected in item B represents net outlays reported to this Agency by servicing finance and accounting activities, and recorded in the Agency's accounting reports. The Defense Business Operations Fund (DBOF) outlay transactions reported directly to the Treasury by outside activities are not reflected in the cash balance.

Inventories

The following are the types of DeCA inventory and method used to determine the value of each type of inventory:

(1) **Inventories Held for Sale:** Grocery items procured from Federal and non-Federal sources are restricted for sale at cost to authorized commissary patrons, and to authorized appropriated and nonappropriated fund organizations. Resale inventories are valued using the first-in, first-out (FIFO) method.

(2) **Troop Issue:** Bulk purchase food items are procured in support of troop mission requirements for Air Force installations and Army troop supported activities on Army installations. These items are procured through Defense Personnel Support Center (DPSC), and sold at cost primarily to troop dining facilities. Commissaries that have a troop support mission must always be ready to support any contingency or rapid deployment. Troop Issue inventories are valued using the FIFO method.

(3) **War Readiness Materiel (WRM):** New WRM stocks are procured by DeCA and stored in Central Distribution Centers (CDCs), warehouses, or facilities under commercial lease by DPSC until needed. The Operations and Maintenance, Air Force appropriation, replaces spoiled and obsolete stocks. The WRM stocks residing in DeCA inventories are valued using the FIFO method.

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Inventory - Start-Up Problems: DeCA has experienced many transitional problems in its conversion year with recording and valuation of inventories. As a result of these problems, no adjustments were made to the accounting records based on physical inventories, and it is the opinion of this Agency that inventories are significantly overstated in the financial records.

(1) A reconciliation of the control versus subsidiary accounts conducted at fiscal year-end disclosed a \$205M overstatement of inventory balances in the accounting control files. Based on this discovery, the resale inventory and accounts payable balances were adjusted downward by \$205M to bring the accounting records into agreement with the subsidiary.

(2) Portions of the business/accounting system interface did not function correctly during FY 92. Specifically, store receipt transactions that generate increases and decreases to inventory on-hand and inventory in-transit balances did not post correctly. Actions are underway to correct this problem.

(3) Beginning inventories capitalized when DOD consolidated commissary operations under DeCA are questionable. The Military Services cannot substantiate the ending inventory balances, which were furnished to DeCA as beginning balances. Since initial capitalization of those balances, no reconciliation has been performed in the Agency's accounting system.

(4) Duplication may have occurred in the transfers of resale stock inventories from the Military Services. In addition to capitalization of the certified ending inventory amounts, it is believed that the Air Force also sent a significant amount of in-transit inventory billings to DeCA. This means that these amounts were absorbed during the initial capitalization and again upon receipt of the merchandise at DeCA commissaries classified within ASAC as "receipts not due-in."

(5) Procedures used to transfer inventory between warehouses, commissaries, regions, DPSC and other locations are under review. Controls are being evaluated to discern whether the inventory accounts are being properly affected by the transfers.

Property, Plant and Equipment

B. Other Information: The Property and Plant Accounting System (PPAS) is the property accountability system employed by DeCA. The Agency encountered difficulty obtaining accountability data from the Military Services to accurately load property values into the PPAS:

(1) The consolidation process involved gathering data from property records of all four Military Services. Property records were not uniform. It is doubtful that all capital assets are properly classified and/or reflected in the PPAS, and in this statement.

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(2) In most cases, exact acquisition dates were not provided by the former Services. For the DBOF, all capital assets acquired were entered into the PPAS with an acquisition date of October 1, 1991, or DeCA's inaugural date. As a result, we are aware that net book values are overstated by the time value of the difference (net acquisition value less depreciation) between October 1, 1991 and the actual acquisition date.

(3) These problems are being resolved wherever actual acquisition data is available. Each DeCA region has been tasked to identify and submit corrections to the PPAS to reflect, as nearly as possible, the correct acquisition dates and values for property contained in their inventories.

Resale Stock Receivables

Accounts Receivable, Federal is overstated by \$198,079K, or the value of unconfirmed deposits at September 30, 1992. The unconfirmed deposits should have been reported as Treasury cash. The resale accounting system is currently programmed to record collections for cash sales as public receivables until deposits are confirmed at the DFAS-CO--normally three to five days after the funds are deposited. A system change is being initiated to discontinue this practice. When the change is completed, proceeds from cash sales will post to unconfirmed deposits, not receivables.

SECTION 2

***DEFENSE SURCHARGE
COLLECTIONS***

***PRINCIPAL
STATEMENTS***

DeCA Surcharge Collections Fund Financial Statements

Principal Statements 19

Department/Agency: Defense Commissary Agency
Reporting Entity: Commissary Surcharge Collections
Statement of Financial Position
as of September 30, 1992
(Dollars)

ASSETS	1992
1. Financial Resources:	
a. Fund Balances with Treasury (Note 2)	\$370,816,293
b. Cash (Note 2)	31,505,797
c. Foreign Currency (Note 2)	
d. Other Monetary Assets	
e. Investments, Non-Federal	
f. Accounts Receivable, Net - Non-Federal	196,611
g. Inventories Held for Sale, Net	
h. Loans Receivable, Net - Non-Federal	
i. Advances and Prepayments, Non-Federal	
j. Property Held for Sale	
k. Other, Non-Federal	
Intragovernmental Items:	
(1) Accounts Receivable, Federal	35,070,584
(2) Loans Receivable, Federal	12,561,822
(3) Investments, Federal	
(4) Other, Federal	
m. Total Financial Resources	<u>\$450,151,107</u>
2. Non-Financial Resources:	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale	
c. Property, Plant and Equipment, Net (Note 3)	78,188,607
d. Construction in Progress (Note 4)	45,854,654
e. Total Non-Financial Resources	<u>\$124,043,261</u>
3. Total Assets	<u><u>\$574,194,368</u></u>
LIABILITIES	
4. Funded Liabilities	
a. Accounts Payable, Non-Federal	7,811,982
b. Accrued Interest Payable	
c. Accrued Payroll and Benefits	
d. Accrued Entitlement Benefits	
e. Lease Liabilities	
f. Debt	
g. Guarantees Payable	
h. Other Funded Liabilities, Non-Federal	

The accompanying notes are an integral part of these statements.

DeCA Surcharge Collections Fund Financial Statements

20 Principal Statements

Department/Agency: Defense Commissary Agency
Reporting Entity: Commissary Surcharge Collections
Statement of Financial Position
as of September 30, 1992
(Dollars)

LIABILITIES Continued	1992
i Intragovernmental Liabilities	
(1) Accounts Payable, Federal	\$76,814,919
(2) Debt	
(3) Deferred Revenue	
(4) Other Funded Liabilities, Federal	
j Total Funded Liabilities	<u>\$84,626,901</u>
5 Unfunded Liabilities:	
a. Accrued Leave	
b. Lease Liabilities	
c. Pensions and Other Actuarial Liabilities	
d. Other Unfunded Liabilities	
e. Total Unfunded Liabilities	<u> </u>
6 TOTAL LIABILITIES	\$84,626,901
NET POSITION	
7 Fund Balances:	
a. Revolving Fund Balances	370,816,293
b. Trust Fund Balances	
c. Appropriated Fund Balances	
d. Total Fund Balances	<u>\$370,816,293</u>
e. Capitalization, Transfer In	81,788,254
f. Net Results of Operations (Note 5)	36,962,920
8 Less Future Funding Requirements	<u>\$489,567,467</u>
9 Net Position	
10 Total Liabilities and Net Position	<u>\$574,194,368</u>

The accompanying notes are an integral part of these statements.

DeCA Surcharge Collections Fund Financial Statements

Principal Statements 21

Department/Agency: Defense Commissary Agency
 Reporting Entity: Commissary Surcharge Collections
 Statement of Operations (and Changes in Net Position)
 for Period Ended September 30, 1992
 (Dollars)

REVENUES AND FINANCING SOURCES	1992
1 Appropriations Expensed	
2 Revenues from Sales of Goods	
a To the Public	
b Intragovernmental	
3 Interest and Penalties, Non-Federal	
4 Interest, Federal	
5 Taxes	
6 Other Revenues from Surcharge Collections intragovernmental (Note 6)	\$307,079.833
Less: Taxes and Receipts Returned to the Treasury	<u>\$307,079.833</u>
7 Total Revenues and Financing Sources	
 EXPENSES	
8 Cost of Goods or Services Sold	
a To the Public	
b Intragovernmental	
9 Program or Operation Expenses (Note 7)	265,744.327
10 Depreciation	4,372.587
11 Bad Debts and Write-offs	
12 Interest	
a Federal Financing Bank/Treasury Borrowing	
b Federal Securities	
c Other	
13 Other Expenses	<u>\$270,116.914</u>
14 Total Expenses	
15 Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	36,962.919
16 Plus (Minus) Adjustments:	
a Extraordinary Items	
b Prior Period Adjustments	
17 Excess (Shortage) of Revenues and Financing Sources over Total Expenses	
18 Plus: Unfunded Expenses	
19 Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	\$36,962.919

The accompanying notes are an integral part of these statements.

DeCA Surcharge Collections Fund Financial Statements

22 Principal Statements

Department/Agency: Defense Commissary Agency
Reporting Entity: Commissary Surcharge Collections
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Dollars)

EXPENSES Continued

1992

21. Net Position, Beginning Balance	\$370,816,293
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	36,962,919
23. Plus (Minus) Equity Transfers	81,788,254
24. Net Position, Ending Balance	<u>\$489,567,466</u>

The accompanying notes are an integral part of these statements.

DeCA Surcharge Collections Fund Financial Statements

Principal Statements 23

Department/Agency: Defense Commissary Agency
Reporting Entity: Commissary Surcharge Collections
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

Cash Flows from Operating Activities:	1992
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$36,962,919</u>
Adjustments affecting Cash Flow:	
2. Appropriations Expensed	(270,116,914)
3. Decrease (Increase) in Accounts Receivable	(22,705,373)
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	
6. Increase (Decrease) in Accounts Payable	23,373,406
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	
9. Depreciation and Amortization	4,372,587
10. Other Unfunded Expenses	
11. Other Adjustments	<u>9,028,504</u>
12. Total Adjustments	<u>(\$256,047,790)</u>
13. Net Cash Provided (Used) by Operating Activities	<u>(\$219,084,871)</u>
Cash Flows from Non-Operating Activities:	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant and Equipment	849,000
16. Purchases of Investments	
17. Purchases of Property, Plant and Equipment	<u>124,043,261</u>
18. Net Cash Provided (Used) by Non-Operating Activities	<u>(\$123,194,261)</u>
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19. Appropriations (Current Warrants)	
20. Add:	
a. Restorations	
b. Transfers of Cash from Others	373,784,929
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash to Others	
22. Net Appropriations	

The accompanying notes are an integral part of these statements

DeCA Surcharge Collections Fund Financial Statements

24 Principal Statements

Department/Agency: Defense Commissary Agency
Reporting Entity: Commissary Surcharge Collections
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued	1992
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activities	\$373,784,929
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	(342,279,132)
30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	
31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$31,505,797</u>

The accompanying notes are an integral part of these statements.

DeCA Surcharge Collections Fund Financial Statements

Principal Statements 25

Department/Agency: Defense Commissary Agency
 Reporting Entity: Commissary Surcharge Collections
 Statement of Budget and Actual Expenses
 for the Period Ended September 30, 1992
 (Dollars)

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations		Expenses
		Direct	Reimbursed	
Commissary Surcharge Collection	\$373,784,929	\$362,616,244		\$270,116,914
Totals	<u>\$373,784,929</u>	<u>\$362,616,244</u>	<u></u>	<u>\$270,116,914</u>

Budget Reconciliation

A. Total Expenses	\$270,116,914
B. Add:	
(1) Capital Acquisitions	124,043,261
(2) Loans Disbursed	(99,585,319)
(3) Other Expended Budget Authority	
C. Less:	
(1) Depreciation and Amortization	4,372,587
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	
D. Expended Appropriations	\$298,947,443
E. Less Reimbursements	\$307,079,833
F. Expended Appropriations, Direct	<u>(\$8,132,390)</u>

The accompanying notes are an integral part of these statements

***NOTES TO THE
DEFENSE SURCHARGE
COLLECTIONS
PRINCIPAL
STATEMENTS***

NOTE 1. Summary of Significant Accounting Policies

A. Reporting Entity

DeCA Headquarters maintains overall program and fund control through its own Operating Agency and Accounts Office for funds distribution and execution reporting. DeCA Headquarters issues fund targets to the six commissary regions located in CONUS and the funds are accounted for by DFAS-CO. DeCA Headquarters formally allots funds to the European Commissary Region.

Centralized accounting support for the European Commissary Region is provided by the Subsistence Finance and Accounting Office Europe, 9th Finance Group, Zweibruecken, Germany. The Standard Army Finance and Accounting System (STANFINS) is used for all funds allotted to the region. Financial reports are provided to DeCA by the 9th Finance Group FAO and DeCA Headquarters consolidates the reports with those from the DFAS-CO and prepares the required report submissions to the Washington Headquarters DFAS.

Centralized accounting support for the 6 CONUS regions, Headquarters and the service centers is provided by the Defense Finance and Accounting Service Columbus Center (DFAS-CO), Columbus, Ohio. Computer processing support for the accounting and civilian payroll systems used by DFAS-CO to support DeCA is provided by the Defense Logistics Agency (DLA).

For the 6 CONUS regions, Headquarters, and the service centers accounting for DeCA's Defense Business Operations Fund - Commissary Operations and the Surcharge Collections Fund is accomplished using the Defense Business Management System (DBMS). Accounting for DeCA's Defense Business Operations Fund - Commissary Resale is accomplished using the STANFINS.

DeCA has established a liaison office in each of the six regions and the East Service Center to interface between the agency payroll and accounting requirements and DFAS-CO. The liaison function involves establishing new employees in DBMS, removing departed employees, processing entitlement changes, various payroll deductions and recording commitments and obligations. The Midwest Region liaison office supports the West Service Center and the East Service Center liaison office supports the Headquarters. For the OCONUS commissaries managed by CONUS regions, the civilian payroll support is obtained from the host installation or other central payroll activity under a Installation Support Agreement. The financial data is reported to the DFAS-CO for posting to the DeCA accounting records.

DeCA Surcharge Collections Fund Financial Statements

30 Footnotes

The DFAS-CO provides DeCA Headquarters, CONUS regions and service centers with finance and accounting services for such things as disbursing; commercial accounts processing for DBOF - Operations and Surcharge Collections contracts; processing of interfund and 1080 billings; processing TFO/TBO transactions; accounting reports; and travel payments. Collections/deposits of commissary sales receipts and surcharges are processed by DFAS-CO for all CONUS commissaries to include Puerto Rico, Hawaii and Alaska. The DFAS-CO also processes returned checks for these commissaries. Collections/deposits and returned checks for the other off shore commissaries managed by a CONUS region will be processed by the host finance and accounting office at the location and the collections processed to DFAS-CO under TBO/TFO or cross disbursing procedures.

The civilian payroll for CONUS commissary personnel to include those in Puerto Rico, Hawaii and Alaska is centralized and obtained from the DFAS-CO to reduce the cross disbursing workload; ensure timeliness of accounting data; and reduce payroll processing costs. DeCA organizations in the CONUS central pay system input time and attendance using communications lines into DBMS

In CONUS, resource management personnel in the liaison offices input commitments and obligations directly into the accounting system (DBMS) over the dedicated communication lines for contracts, Military Interdepartmental Purchase Requests (MIPRs), and travel orders that are funded by Commissary Operations or Surcharge Collections. Documentation to support the obligation will be retained under controlled conditions to support the obligation. Reviews of the unliquidated obligations are performed by the resource management organization that input the obligation and deobligations are made where appropriate. DFAS-CO is provided copies of obligation documents to support the accounting records as well as the contract payment.

Obligations for subsistence delivery orders placed against BDOs/BPAs are entered into the financial system at the same time the receipt transactions are processed into the financial system. The receipt data is forwarded electronically each business day from the commissaries and central distribution centers (CDCs) into a computer located at the East Service Center and the data loaded into SAVES. SAVES produces the accounting transaction file for obligations and receipts during the daily cycle. The transaction file is passed to the Dayton Ohio computer center for posting to the STANFINS accounting records. Commissaries and CDCs retain the hard copy receiving reports under appropriate controls to support the payments.

Milstrip requisitions are issued for commissary resale subsistence and Troop Issue subsistence. The commissary or CDC electronically transmits the requisition data daily to the East Service Center computer. Each workday the East Service Center computer operations passes the transaction file to the Dayton Ohio computer center for posting of obligations to the STANFINS accounting records.

DeCA Surcharge Collections Fund Financial Statements

Footnotes 31

The DeCA East Service Center and West Service Center perform resource management functions related to CONUS stock fund bill paying SAVES and reconciliation of CONUS stock fund inventory supply records with the financial records. The West Service Center has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption, accounting for redemptions and losses, contractor oversight, and processing documentation to return the cash to the DeCA Commissary Resale fund.

DFAS-CO performs the disbursing function for DeCA funds executed through the DFAS-CO with the exception of any TBO/TFO or cross disbursements. For CONUS resale commercial accounts processed by the DeCA service centers the disbursement transactions to STANFINS and the voucher and check producing information is passed electronically from the East Service Center computer operations to DFAS-CO for update of the accounting records and producing the voucher and check. The DeCA service centers will retain the backup payment documentation. DFAS Columbus Center will produce the check and the voucher and mail the payment to the vendor. DFAS-CO will provide the check numbers to the service centers for update of the automated bills register in SAVES.

Commissary collections affect the three types of funds received by DeCA. The daily commissary sales receipts and surcharge collections (i.e., 5 percent added at checkout to patron's purchases) are deposited the DBOF Commissary Resale fund and the Surcharge Collections fund, respectively. The redemption of merchandise coupons represents a collection for the commissary resale (i.e., reimbursement for face value of coupon) and the DBOF Commissary Operations fund (i.e., reimbursement of the handling costs). The sale of cardboard and excess commissary equipment represents earnings to the Surcharge Collections fund. Discounts earned on the payment of resale subsistence commercial accounts are transferred to the Surcharge Collections fund as earnings. Additionally, fees from merchandising agreements with manufacturers for store shelf space allocation are transferred to the Surcharge Collections fund as earnings.

Fiscal year 1992 represents the first year that the Defense Commissary Agency has prepared financial statements as required by Section 252 of Title 10, United States Code. The accompanying financial statements account for all funds for which the Agency is responsible. The audited financial statements are presented on the accrual basis of accounting as required by Title 2, "Accounting Principles and Standards" of the Policy and Procedures Manual for Guidance of Federal Agencies, published by the U.S. General Accounting Office.

Budget Authority is received for Surcharge Collections on a DOD Apportionment Schedule. Surcharge Collections is established to incur obligations and expenditures to perform a continuing cycle of business-like operations in accordance with the provisions of the Commissary Trust agreement. Surcharge collections amounting to 5% of all DBOF

DeCA Surcharge Collections Fund Financial Statements

32 Footnotes

Commissary Resale cash sales, exclusive of troop support are the source of revenue, with miscellaneous collections for sale of cardboard, salvaged equipment vendor discounts, and surcharge on some charge customers.

DeCA Headquarters maintains overall program and fund control through its own Operating Agency and Accounts Office for funds distribution and execution reporting. DeCA Headquarters issues allotments to the European Commissary Region. Copies of the funding documents are furnished to the European Commissary region for establishment of targets in the accounting records. The DeCA Regions establishes funding targets in the accounting system for stores, distribution centers, and districts. The respective Service Center establishes internal organization funding targets for assigned funding.

The European Commissary Region obtains support from the 9th Finance Group FAO to include accounting and reporting for assigned collection/disbursement services, billing, processing TFO/TBO monthly to DeCA. Consolidation of reporting is done at the DeCA Headquarters and furnished to the Defense Finance and Accounting Service, Washington.

Surcharge Collections are used to pay for commissary construction/renovation, store equipment, ADP and commissary operating supplies and support. Exception are commissary labor and personnel related costs such as travel and training in CONUS and OCONUS and utilities and transportation in OCONUS areas.

DeCA establishes funds for Military Interdepartmental Purchase Requests to obtain equipment, supplies, and services from non-DeCA activities, as required. Documentation to support the obligation is retained by the responsible Resource Management organization under controlled conditions to support the obligation. Review of unliquidated obligations is performed by the Resource Management organization that input the obligation and obligations will be made where appropriate.

For the closeout of the Military Services' Trust Revolving fund accounts, the Services' residual balances on their books at September 30, 1992 was transferred to the DeCA Trust Revolving fund account along with the unliquidated balances. For the Army, Navy, and Marine Corps, this was done March 31, 1992, and for the Air Force, this was April 30, 1992. For transferred contracts, the paying office was either DFAS-CO or the 9th Finance Group, FAO. For unliquidated obligations where 1080 billings or interfund billing procedures were established, these were reported through Service channels.

The accompanying audited financial statements account for the Commissary Surcharge Collections. The audited financial statements are presented on the accrual basis of accounting as required by the DOD Accounting Manual 7220.9H, dated October 1983.

B. Accounting Standards

The financial statements are presented in accordance with DOD Guidance on Form and Content of Financial Statements for FY 1992 Financial Activity, dated October 27, 1992, and the DOD Accounting Manual, which prescribes the accrual basis as the basis of accounting to be used by DOD Components.

To the extent that guidance was not provided in the DOD Accounting Manual, guidance promulgated by the General Accounting Office, the Office of Management and Budget, the Department of the Treasury or the Federal Accounting Standards Board (FASB), as appropriate was followed.

C. Budget and Budgetary Accounting

The Revolving Trust Fund authority is the DD Form 1105R Apportionment and Reapportionment Schedule. Contract Authority of \$21.4 million was not used. The fund operates subject to the provisions of Section 1517 of 31 U.S. Code (Anti-Deficiency Act) relevant portions of Title 10 of the U.S. Code and DOD 1330.17-R.

The Commissary Surcharge Collections Account is used to reimburse appropriations for payments made on behalf of commissary stores for operating equipment and supplies, utilities, laundry services, transportation and inventory losses. Surcharge revenue is also used to construct commissaries.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. Revenues and Other Financing Sources

Financing services for operating costs are provided through departmental apportionment. The budgetary process under which the Agency operates does distinguish between capital and operating expenditures. For financial reporting purposes under accrual accounting, operating expenses are recognized in the period incurred. Expenditures for capital and other long term assets are not recognized as expenses until consumed in the Agency's operations. Revenue for surcharge collections is recognized at the point the inventory items are sold by the Commissary Revolving Fund.

DeCA Surcharge Collections Fund Financial Statements

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F. Accounting for Intra-Government Activities

The Defense Commissary Agency, as an agency of the Federal Government, interacts with, and is dependent upon, other financial activities of the government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Department as through the agency were a stand alone entity.

G. Funds with the U.S. Treasury and Cash

The Agency's Commissary Surcharge Collections resources are maintained in Treasury accounts. Its cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury represents the aggregate of all unexpended balances. As of September 30, 1992, the Agency had \$370.8 million funds with the Treasury and 31.5 million in cash.

H. Accounts Receivable

As presented in the consolidated statement of financial position, accounts receivable includes receivables from surcharge collections of the DBOF Revolving Fund. Allowances for uncollectible accounts were not considered as material, due to a minimal public reimbursement.

I. Equipment

With the establishment of the Defense Commissary Agency, October 1, 1991, DeCA capitalized equipment in place from the Military Services. The value of this equipment has been entered into the DeCA Property Accounting System (DePAS). Where the acquisition date and acquisition value could be determined, these are a part of the transaction history in DePAS. Where the acquisition date and acquisition value cannot be determined, the transfer date is recorded, and the equipment must be valued at its estimated present value. The equipment will not be valued at less than the salvage value. The value for capitalized assets must be recorded in the accounting records. The value of depreciation capitalized is to be recorded so that a present value can be determined.

General Journal Vouchers were provided to DFAS-CO for entry to the Defense Business Management System (DBMS) accounting system asset and capital accounts based upon our ending September 30, 1992 position. DFAS-CO will enter General Ledger Account Code adjustments to update the Asset account Capital Equipment, and Accumulated Depreciation, and Capital for the values transferred.

Title 2, U.S.C 3512 Accounting Principles and Standards requires that Agency property records must capture all transactions affecting the agency's investment in property, including disposal or retirements when the property leaves the custody of the agency. When nondepreciated property, plant, and equipment are retired, agencies shall remove the

DeCA Surcharge Collections Fund Financial Statements

Footnotes 35

assets from the property account and an equal amount from the Invested Capital account. Proceeds from sale of equipment shall be credited to the surcharge account. Also contracts may authorize the proceeds from the sale of property in a contractor's or subcontractor's custody to be credited to the cost of work. When capital assets are retired, agencies shall recognize gains or losses on retirement.

The agencies are transferring net book values as well as assets or liabilities, and no gains or losses shall occur. Differences in depreciation shall be determined at the time of the transfer. If the transferor has not recorded depreciation, the transferee shall record the asset at full acquisition value, and shall establish an appropriate accumulated depreciation on its books, with the balance in a Transfer In w/o Reimbursement equity account.

Equipment lost or destroyed because of current year natural disasters in Guam, Hawaii, and Subic Bay, and other destruction, such as fires, are being identified for adjustments to assets.

J. Equity

Equity consists of capitalization (transfers), cumulative results of operations and unexpended appropriations. The capitalizations (transfers), as presented in Note 3 of the consolidated statement of financial position, represents the value of the equipment that was transferred from the Military Services on October 1, 1991.

This agency does not hold title to land or retain title to buildings constructed using Commissary funds. Title passes to the installation immediately after completion. Cumulative results of operations represents the gain of revenue over expenses since funds inception. Unexpended appropriations represents amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

K. Comparative Data

Comparative data for the prior year has not been presented because this is the first year for which financial statements are prepared for this agency. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Agency's reporting activities.

DeCA Surcharge Collections Fund Financial Statements

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NOTE 2. Fund Balances with Treasury, Cash, and Foreign Currency:

A. Fund Balance with Treasury:

(1) Trust Revolving Funds	\$370,816,293
(2) Revolving Funds	
(3) Appropriated Funds	
(4) Other Fund Types	
Total	<u>\$370,816,293</u>

B. Cash:

(1) Restricted Cash	0
(2) Unrestricted Cash	<u>\$ 31,505,797</u>
Total Cash	<u>\$ 31,505,797</u>

NOTE 3. Property, Plant and Equipment, Net:

(1) Depr. Method	(2) Serv. Life	(3) Acqu. Value	(4) Accum. Depr.	(5) Net Book Value
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A. Classes of Fixed Assets:

Mil. Equip.	SL 1-10 yr.	\$91,819,497	\$13,630,890	\$78,166,607
Construction				
in Progress		<u>45,854,654</u>		<u>45,854,654</u>
Total		<u>\$137,674,151</u>	<u>\$13,630,890</u>	<u>\$124,021,261</u>

B. Other Information.

The Defense Commissary Agency transferred capital assets from the Military Services totaling 91.0, with 9.3 in transferred accumulated depreciation, for a net present value of \$1.8, October 1, 1992. Current year expense of capitalized equipment was 4.3, and current year purchases .8. An inventory of DeCA assets was completed April 1992, with each asset barcoded. This inventory was uploaded to the DeCA Property Accounting System from Military Services Property Records. Where incomplete records were found, estimated fair market value was used for acquisition cost, or an estimated acquisition date was used to determine present value. Salvage value was determined at 1/2 acquisition price. Efforts continue to purify the acquisition date/acquisition cost or fair market value.

DeCA Surcharge Collections Fund Financial Statements

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Weaknesses have been determined in Transfer of Equipment between regions and to DRMO. These have been addressed through procedural changes. Commissary Assets lost, destroyed, or stolen during FY92 natural disasters have not been identified, therefore, assets are overstated by these inventories.

The DePAS is used to maintain subsidiary property book on DeCA assets at the Region and at Headquarters, by the DePAS Systems Manager. A data download was used to establish beginning financial balances and identify current year purchases. Journal Vouchers to establish beginning Military Equipment balances, Equity Transfers in Without Reimbursement, Accumulated Depreciation, and Depreciation Expense were forwarded to DFAS-CO, however, these balances were not entered to DeCA Financial Reports due to system deficiencies, requiring summary General Ledger Account entries.

This agency does not hold title to land or buildings constructed using Commissary funds. This title passes to the installation immediately after completion.

NOTE 4. Other Non-Financial Resources:

A. Other Non-Financial Resources:

(1) Construction in Progress \$ 45,354,654

B. Other Information. Construction in Progress currently reflects payments by the Defense Finance and Accounting Center, Columbus (DFAS-CO) for unliquidated obligations transferred to DeCA October 1, 1991, and transactions paid by others. Under DeCA FMIP determination will be made of prior service payments.

NOTE 5. Fund Balances:

Commissary Surcharge Collections

A. Unexpended Appropriations	\$0
B. Invested Capital	78,166,607
C. Cumulative Results of Operations	36,962,919

NOTE 6. Other Revenues and Financing Sources:

A. Other Revenues and Financing Sources:

1) Revenues from Surcharge	
Collection, DeCA DBOF	\$307,079,833
Total	\$307,079,833

DeCA Surcharge Collections Fund Financial Statements

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B. Other Information. DeCA has visibility in the Financial Accounts of \$38 Thousand in Miscellaneous Revenue from Surcharge Collections. This amount is understated by an unidentified amount collected into the DeCA Surcharge Collections account. It was DFAS-CO policy to record proceeds from the sale of cardboard/equipment and other miscellaneous income in the surcharge collection without identity of type of revenue. All Transaction For Other cross collections were entered to one account. Under DeCA FMIP plans with DFAS-CO, DeCA procedures will preclude this recurrence in FY93.

NOTE 7. Program or Operating Expenses:

A. Operating Obligations by Object Classification: (thousands)

(1) Transportation of Things	\$3,094
(2) Rents, Communication and Utilities	46,338
(3) Printing & Reproduction	2,292
(4) Other Services	83,609
(5) Supplies & Materials	60,498
(6) Equipment not Capitalized	26,253
(7) Lands, and Structures	<u>140,533</u>
(8) Total Obligations by Object Class	<u>\$362,617</u>

(a) Obligations are reflected in lieu of expenses due to Military Services expenses recorded/recognized and transferred to DeCA in FY92 which have no identity by object class. DFAS-CO expenses and disburses these upon receipt of the TFO or payment documents. Consolidation of the Military Services was effective March/April 1992.

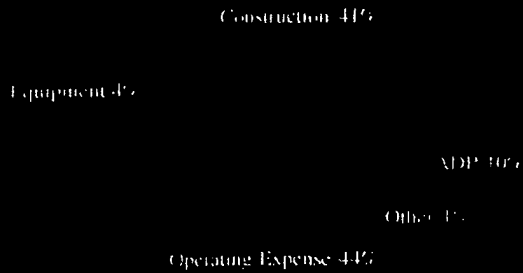
For closeout of the Services' Trust Revolving fund Accounts, the services residual balances on their books at September 30, 1992 was transferred to the DeCA Trust Revolving Fund Account along with the unliquidated balances. For the Army, Navy, and Marine Corps, this was done March 31, 1992, and for the Air Force, this was April 30, 1992. For transferred contracts, the paying office was either DFAS-CO or the Subsistence FAO, 9th Finance Group, Europe. For unliquidated obligations where 1080 billings or interfund billing procedures were established, these were reported through Service channels.

***SECTION 3
SUPPLEMENTAL
FINANCIAL
AND
MANAGEMENT
INFORMATION***

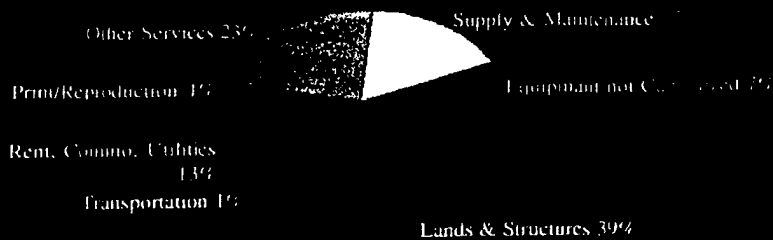
DeCA Surcharge Collections Fund Financial Statements

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DEFENSE COMMISSARY SURCHARGE ACCOUNT FY 92 OBLIGATIONS \$62.6 BILLION



DEFENSE COMMISSARY SURCHARGE ACCOUNT FY 92 OPERATING EXPENSE \$362.6 BILLION (by object class)



***FINANCIAL
ATTRIBUTES***

OPERATING COST ATTRIBUTE

The operating surplus for Commissary Surcharge Collections reflects revenue generated from the DBOF Commissary Resale surcharge at 5% and miscellaneous income was in excess of program expenses. Refer to Footnote 7 to the Principal Statements. Comparative data is not available for this new entity

DEFENSE COMMISSARY SURCHARGE ACCOUNT (DeCA)	
OPERATING COSTS ATTRIBUTE	
(Thousands)	
	FISCAL YEAR 1992
Current Dollars:	
Total Costs and Expenses	\$270,116.9
Revenues and Reimbursements	(\$307,079.8)
Net Operating Costs	(\$36,962.9)
Annual Percentage Change	
1990 Constant Dollars:	
Net Operating Costs	(\$33,192.2)
Annual Percentage Change	
INDICATOR: Percentage of Change not available - First Year of Operation	

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OPERATING RESULTS ATTRIBUTE

This attribute reflects the surplus of operating revenue from surcharge collections and miscellaneous income over program expenses. Comparative data is not available, refer to footnotes.

DEFENSE COMMISSARY SURCHARGE ACCOUNT (DeCA)	
OPERATING RESULTS ATTRIBUTE	
(Thousands)	
	FISCAL YEAR 1992
REVENUES:	
FEDERAL SOURCES	\$307,079.8
PUBLIC SOURCES	
OTHER	
TOTAL REVENUE	<u>\$307,079.8</u>
EXPENSES ¹ AND LOSSES	<u>\$270,116.9</u>
NET OPERATING INCOME (DEFICIT)	<u>\$36,962.9</u>
ADDITIONAL APPROPRIATIONS	
OPERATING SURPLUS (DEFICIT)	<u>\$36,962.9</u>
INDICATOR: Ratio of operating surplus to net operating cost: 7 to 1	
¹ Expenses are understated because all accruals were not recorded.	

FINANCIAL CONDITION ATTRIBUTE

This attribute defines the financial health of a program and its inherent ability to generate financial resources to maintain its operation and meet financial obligations without further financial assistance. The attribute also helps define future funding requirements for a program.

DEFENSE COMMISSARY SURCHARGE ACCOUNT (DeCA)	
FINANCIAL CONDITION ATTRIBUTE	
(Thousands)	
	FISCAL YEAR 1992
Available Sources of Cash	\$31,505.8
Future Requirements for Cash	
Cash Surplus (Shortfall)	
Total Assets	\$574,194.4
Total Liabilities	\$84,626.9
Debt to Asset Ratio	6.79

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FINANCIAL OBLIGATION ATTRIBUTE

This information relates to each program's financial obligations, which represent a future demand for resources and costs to taxpayers. It has limited use for financial execution today's cost-based environment. These attributes are the indicators of an entity's ability to pay its obligations and liabilities. An entity incurs liabilities in two ways: when it borrows money from the Treasury, other agencies, or from the public; and when it incurs costs or losses from a financial commitment that will be paid in the future.

DEFENSE COMMISSARY SURCHARGE ACCOUNT (DeCA)	
FINANCIAL OBLIGATIONS ATTRIBUTE	
(Thousands)	
	FISCAL YEAR 1992
Total Current Assets	\$574,194.4
Total Current Liabilities	\$84,626.9
Current Ratio	6.78
Total Quick Assets:	\$450,151.1
Total Current Liabilities	\$84,626.9
Acid Test Ratio	5.32
Total Current Assets consist of cash, accounts receivables, and inventories.	
Total Quick Assets consist of cash and accounts receivable.	

Audit Team Members

Shelton R. Young	Director, Logistics Support Directorate
Gordon Nielsen	Deputy Director
Robert J. Ryan	Program Director
Thomas R. Kelly	Project Manager
John B. Patterson	Team Leader
Larry M. Kutys	Team Leader
Edward D. Coyne	Auditor
Glen B. Wolff	Auditor
Laura A. Rainey	Auditor

INTERNET DOCUMENT INFORMATION FORM

**A . Report Title: Defense Commissary Surcharge Collections Fund
Financial Statements for FY 1992**

B. DATE Report Downloaded From the Internet: 04/24/99

**C. Report's Point of Contact: (Name, Organization, Address, Office
Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

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F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 04/24/99

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